

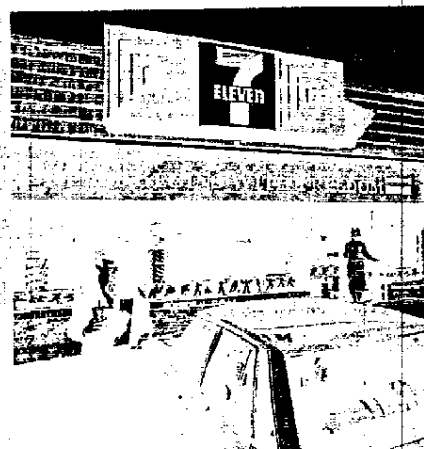
"Synergy among our operations makes Southland worth a lot more than the sum of its parts. The acquisition of Citgo was a logical and important step for us to take. It will strengthen our position as the nation's leading convenience store retailer."

John P. Thompson
Chairman of the Board

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THE SOUTHLAND CORPORATION,
originator of the convenience store concept, is one of the leading specialty retailers in the United States. Its activities are grouped into four business segments:



Retail Facilities

7-Eleven:	
United States	6,962
Canada	337
Total	7,299

Other Retail:

Quik Mart	351
Chief Auto Parts	296
Gristede's	67
Super-7	39
Total	753

Southland International:

United Kingdom -	
R S McColl/7-Eleven	337
Sweden -	
7-Eleven/näröppet	47
Mexico -	
Super Siete	32

7-Eleven Area Licensees -

United States	507
International	2,107
Total	3,030

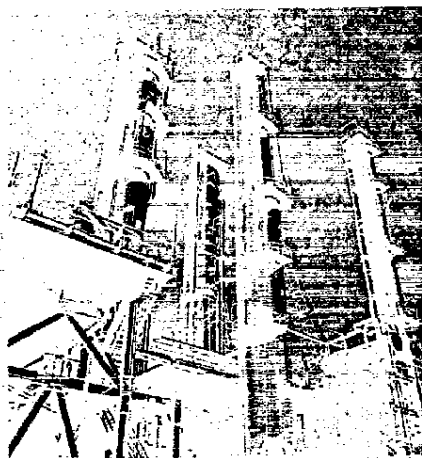
Total Retail Facilities 11,082

The STORES segment includes 7,299 7-Eleven convenience stores, Southland's primary business, as well as the regional distribution centers and food centers which support the stores. Other operations include Quik Mart gasoline and mini-convenience stores, Gristede's food stores and Charles & Co. sandwich shops and gourmet stores, and Super-7 high-volume self-serve gasoline outlets.

Southland International includes 3,030 7-Eleven and other small retail units in 11 countries.

*Sales of these operations are not reported in Southland's total revenues; equity in earnings of affiliates and royalties from area licensees are included in other income.

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■ The **GASOLINE REFINING AND SUPPLY** segment is comprised of Citgo Petroleum Corporation and the Gasoline Supply Division. Citgo includes a major petroleum products refinery at Lake Charles, Louisiana; a lubricants and specialty products operation; a wholesale marketing business primarily for transportation fuels; and varying ownership interests in 16,000 miles of refined product and crude oil pipelines and 32 refined product terminals. The Gasoline Supply Division procures and distributes gasoline to 7-Eleven and Super-7 stores in addition to serving outside customers.



■ The **DAIRIES** segment is one of the nation's largest processors and distributors of dairy products and a leading manufacturer of frozen novelties. In addition to serving more than 5,000 7-Eleven stores, the dairies provide products to a growing group of outside customers, including institutional and food service accounts. Its products are marketed in all 50 states, the District of Columbia and Canada under 11 regional brand names. Operations include Adohr Farms in California; Bancroft in Wisconsin; Cabell's, Knowlton's, Oak Farms and Specialty Products, all in Texas; Embassy in Maryland; Harbisons in Pennsylvania; Merritt Foods in Missouri; Midwest Farms in Tennessee; Velda Farms in Florida; and Wanzer's in Illinois.



■ The **SPECIAL OPERATIONS** segment includes Chief Auto Parts, which operates 296 stores, primarily in California and Texas; Southland Chemical, manufacturer of a variety of food ingredients and specialty chemicals; Tidel Systems, which produces several high-security cash-dispensing units for retailers as well as other items; Reddy Ice, the world's largest ice company; and Pate Foods, a corn-based snack food company.

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FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share data)

Year Ended December 31

Financial Statistics	1983	1982	% Change
Total revenues	\$8,805,010	\$6,782,383	29.8
Net earnings	131,768	108,051	21.9
Primary net earnings per share	3.26	3.02	7.9
Fully diluted net earnings per share	3.21	2.94	9.2
Cash dividends	35,329	27,657	27.7
Cash dividends per share	.84	.77	9.1
Capital expenditures	631,383	337,288	87.2
Return on average shareholders' equity	15.38%	16.57%	

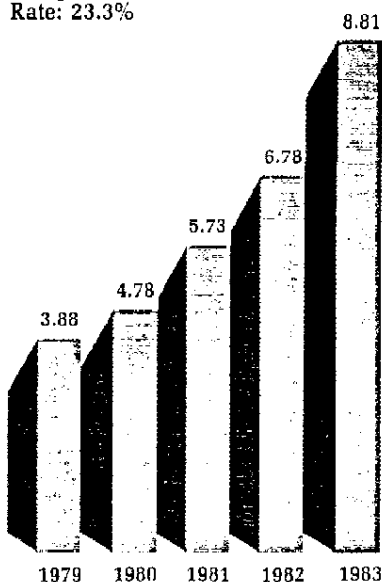
Financial Condition at Year-End

Total assets	3,309,455	1,842,254	79.6
Shareholders' equity	1,074,962	703,348	52.8
Long-term debt	940,878	386,304	143.6
Debt-to-equity ratio	1.10	.87	
Working capital	582,855	113,012	415.7
Book value per share	22.94	19.48	17.8
Average shares outstanding (000's)	40,393	35,773	12.9
Number of shareholders	8,568	7,532	13.8
Number of employees	60,800	49,900	21.8

TOTAL REVENUES

(Dollars in Billions)

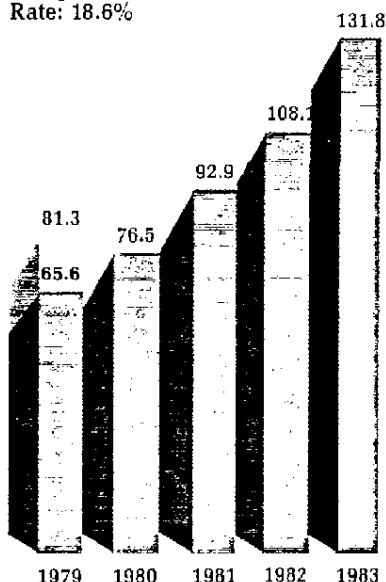
Compound Growth
Rate: 23.3%



NET EARNINGS

(Dollars in Millions)

Compound Growth
Rate: 18.6%

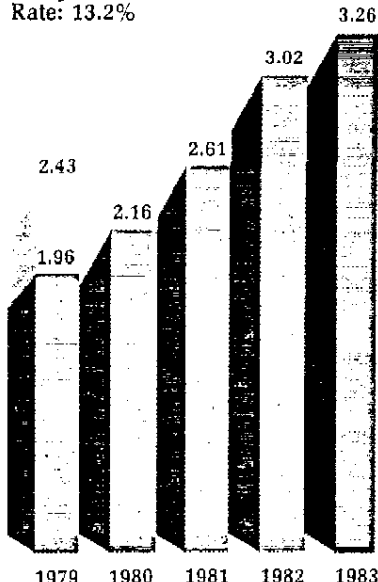


Earnings increased \$15.7 million for cumulative effect of changing to flow-through method of accounting for ITC.

PRIMARY EARNINGS PER SHARE

(In Dollars)

Compound Growth
Rate: 13.2%



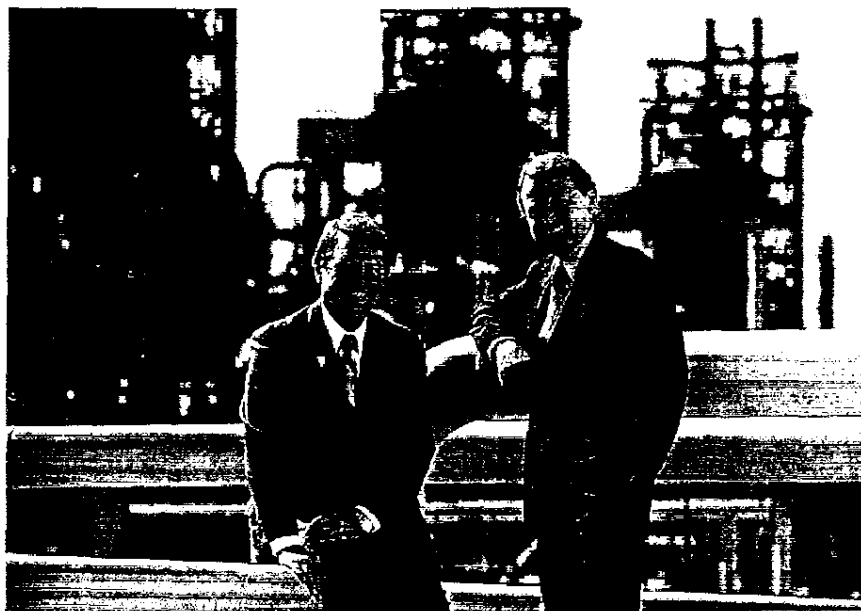
Per-share earnings increased 47¢ for cumulative effect of changing to flow-through method of accounting for ITC.

In 1983, Southland took another major step similar to those which have marked the beginnings of significant periods of growth for your Company.

We believe that Citgo Petroleum Corporation, which became a wholly owned subsidiary of Southland on August 31, will contribute to the Company's future in much the same way as did 7-Eleven expansion into the Florida and Washington, D.C., markets in the 1950s and the West Coast and other major markets in the 1960s, the rapid growth of self-serve gasoline in the 1970s and our more recent emphasis on fast foods marketing.

The acquisition of Citgo does not signal a change in our basic strategy. Southland will remain a marketing-driven company with its major emphasis on convenience retailing. Our aggressive move into automatic teller machines and rapid expansion of self-serve gasoline are but two examples of how 7-Eleven analyzes the needs of the American public and then successfully meets those needs. Convenience retailing has experienced outstanding growth over the years, and ample opportunities remain for further expansion. Southland will continue to lead that growth.

We are pleased to report that for the 22nd consecutive year Southland's revenues and net earnings reached record levels, with Citgo making a positive contribution to 1983 results. Revenues increased 29.8 percent to



Jere W. Thompson and John P. Thompson

\$8.81 billion, and net earnings of \$131.8 million were up 21.9 percent. The Company's effective income tax rate in 1983 was 29 percent, compared with 43 percent in 1982, with the lower rate resulting from investment tax credits and other tax benefits from Citgo.

Primary earnings per share increased 7.9 percent to \$3.26 in 1983, while fully diluted earnings were \$3.21, a 9.2 percent gain. The average primary shares outstanding for the year were up 12.9 percent to 40.4 million, and average diluted shares increased 11.3 percent to 41.1 million, mainly due to the Citgo acquisition.

1983 was an extremely busy year. In addition to completing extensive negotiations for Citgo and beginning its integration into Southland, we also worked to maintain the prosperity and growth of our traditional businesses. Persistent problems in the

energy industry prolonged the recession in Texas, other sections of the Southwest and parts of Canada—historically some of our most profitable markets. Devaluation of the Mexican peso further added to the economic problems of certain southwestern markets. And finally, unfavorable weather conditions in the summer and winter months disrupted normal shopping patterns throughout much of the country. But while 7-Eleven sales and profits in several regions were negatively affected by these factors, the geographic diversity of the stores led to a strong overall performance.

7-Eleven total sales recorded a 12.1 percent gain to \$5.94 billion, with merchandise sales up 12.5 percent, including an 8.7 percent increase in stores open a year or more. We were very pleased with this performance

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under these difficult operating conditions. Real sales growth of stores open a year or more was 3.4 percent, after adjusting for the effect of inflation, and gross profit margins on merchandise, excluding the impact of lower amusement game sales, strengthened slightly over the prior year.

7-Eleven self-serve gasoline sales again showed excellent growth, with volume up 18 percent over 1982 as average gallonage per store increased nicely and 180 7-Eleven units with gasoline were added. We expect the combined retail volume of 7-Eleven, Super-7 and Citgo Quik Mart gasoline locations to exceed two billion gallons in 1984.

We are happy to report that **Chief Auto Parts substantially improved in 1983**, recording its first operating profit in June, followed by a profitable third quarter and a strong fourth quarter. Sales continued to increase, while higher merchandise gross margins were realized and expense controls were improved. Chief, which opened its 300th store in January 1984, is expected to finish the year well ahead of 1983 as more "do-it-yourselfers" are attracted to our convenience concept for auto parts retailing.

Sales of the four Southland Distribution Centers exceeded one billion dollars for the first time, including outside sales which increased a substantial 50.2 percent. Construction of a distribution center in southern

California will begin in 1984, expanding our system to serve 7-Eleven and other customers on the West Coast.

Southland Dairies reported a 36 percent increase in operating profits for the year as they continued their successful strategy of expanding capacity in fast-growing markets, emphasizing high-margin products and closing unprofitable plants. The dairies did an excellent job of replacing about \$30 million of sales formerly generated by these plants, and as a result, sales were up a satisfying 2.7 percent for the year.

Southland International continued to show excellent growth. Our licensee in Japan added 1,000 units in the last three years, and recently celebrated the opening of its 2,000th store. In 1983, three new 7-Eleven area license agreements were signed covering Singapore, the Philippines and the United Kingdom. In addition, a new area license was signed for Alaska in early 1984.



Looking at 1983 as a whole, most of our traditional businesses recorded solid gains in spite of challenging business conditions. However, several negative factors did affect overall results. The Gasoline Supply Division reported a substantial decrease in operating income due to lower profits on its wholesale business to outside customers. And while amusement games continue to be quite profitable, earnings were significantly less than a year ago due to the increasing sophistication and popularity of at-home games and a slowdown in the introduction of new commercial games.

Southland's acquisition of Citgo was a strategic move to vertically integrate gasoline, which provides more than one-fourth of 7-Eleven sales. Because Citgo fulfills our objective to buy gasoline more efficiently and gives us greater assurance of supply in times of shortage, it will greatly strengthen the Company's position as the nation's largest independent gasoline retailer. We studied a large number of proposals over the past few years, which enabled us to recognize the unique advantages of Citgo and its synergies with our other operations.

Southland's position as the nation's largest independent gasoline retailer is strengthened significantly by the Citgo acquisition. Self-serve gasoline, in addition to providing 25 percent of 7-Eleven sales, increases customer traffic, with one-third of these customers also buying other convenience items.

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Citgo's most important asset is its world-class refinery at Lake Charles, Louisiana, the tenth largest in the United States. A half-billion-dollar capital improvement program begun before the acquisition makes the facility one of the most technologically sophisticated and cost-effective refineries in the world. Southland's estimated cost to complete these capital projects is \$110 million, part of which was paid at the acquisition closing.

The most important capital projects are the coking unit and hydrocracker. The coker enables the refinery to process greater quantities of heavy sour crude, which historically has been less expensive and more available than the widely used light sweet crudes. The hydrocracker, which went on line ahead of schedule in March 1984, enhances the refinery's flexibility to increase the yield of more valuable transportation fuels, such as gasoline and jet fuel.

In addition, Citgo operates a lubricants and specialty products division which includes a blending and packaging plant in Cicero, Illinois, and a 65 percent interest in the Lake Charles Cit-Con lubricants refinery, the sixth largest in the United States.

Citgo also owns varying interests in almost 16,000 miles of crude gathering and refined product pipelines and has access to crude supply from three important water routes. Its 32 refined product terminals, located near

Citgo's petroleum products refinery at Lake Charles, Louisiana, is the tenth largest in the United States. Recently completed projects make the refinery one of the most technologically advanced in the world.

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major metropolitan markets where 7-Eleven and Quik Mart stores are located, complement the eight terminals in Texas that Southland already owned.

Citgo's wholesale business supplies over 4,600 gasoline outlets and provides jet fuel to a number of major airlines. It is a significant addition to Southland's wholesaling operation.

At completion of the acquisition, Southland issued 9.352 million new shares of common stock, equivalent to 20 percent of the then total outstanding shares, and valued at \$258 million on March 23, 1983, when the letter of intent for the acquisition was signed. In addition, Southland paid approximately \$519 million for crude oil, refined products and other inventories, various receivables and construction expenditures after May 15, 1983, for capital projects at the refinery.

The financing plan for Citgo will not impair the continued growth of Southland's traditional businesses. Funds for the acquisition, the completion of planned capital projects and working capital needs have been arranged through a \$900 million bank credit facility. At year-end, Citgo was utilizing only \$600 million, and we currently anticipate a maximum requirement of \$750 million. Citgo's credit facility is secured by its stock and non-retail assets.

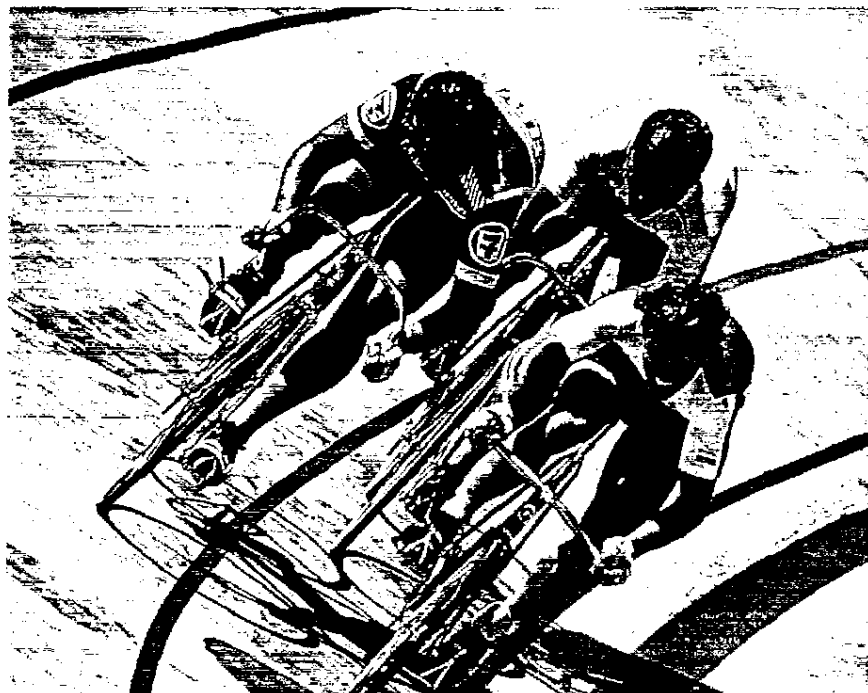
Southland's commitment to amateur athletics includes its sponsorship of the 7-Eleven cycling team and the construction of the 7-Eleven Olympic Velodrome in Los Angeles, as well as a training velodrome at the USOC facility in Colorado Springs.

Looking to 1984, supply contracts for less expensive heavy sour crude, the operation of the refinery's new coking unit for a full year and the completion of the hydrocracker should benefit Citgo's operations. Citgo was a very fine acquisition which provides great potential for Southland, even though we recognize its operating results may be less predictable than the Company's traditional businesses.

Demographic studies have indicated the typical 7-Eleven customer has an avid interest in sports. This orientation has provided the Company with an excellent marketing opportunity to participate in a wide variety of sports programs, the most important of which has been the Olympics. As one of the major corporate sponsors of the 1984 Summer Olympic Games in Los Angeles, we funded the 7-Eleven Olympic Velodrome for cycling competition, the first new facility completed for the Games.

We are also supporting the training program for America's outstanding amateur athletes as a sponsor of the United States Olympic Committee and with a variety of other programs. In addition to funding the construction of a second velodrome, at the USOC training facility in Colorado Springs, Colorado, Southland is sponsoring a series of cycling races and a 7-Eleven cycling team, which includes a number of potential Olympic competitors. We have also established The Olympia Award to honor many talented amateur athletes in 31 sports. We encourage you to read more about your Company's Olympic involvement in the supplement accompanying this Annual Report.

7-Eleven stores will take the spirit of the Olympics to the American people through our 1984 marketing program. In almost 8,000 neighborhoods, our customers will find Olympic information and special merchandise, much of it available



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only at 7-Eleven. Special banners, window graphics and photographs will complete the theme in the stores. In addition, television commercials will highlight 7-Eleven's association with the Olympics.

We are very proud of our role in the Olympics, and we hope you will join the millions of people around the world this summer who will be watching the Games.

Southland has announced plans to build a new corporate office adjacent to our present location immediately north of downtown Dallas. In the 10 years since we completed our current building, Southland has experienced tremendous growth, with revenues multiplying seven times. The new headquarters will enable our corporate and field support staff, which is currently scattered in office space throughout the area, to be housed efficiently at one location, with room to grow well into the next century.

Once the decision was made to stay in the neighborhood near the central business district where we have been for 40 years, we began to study ways we could enhance the environment for our employees and neighbors. Over the last three years, with the help of leading architects, land planners and traffic consultants, we have developed a conceptual design for a 130-acre tract of land surrounding our corporate office.

We anticipate beginning construction this year on our new headquarters, which will be one of the main buildings on the central 24 acres of the development to be called Cityplace. As market conditions warrant, this first phase will be completed with a twin tower and four low-rise buildings, and the remaining land will be gradually developed for mixed commercial and residential use.

Because Cityplace will be developed through a separate subsidiary, Cityplace Development Corporation, we have the flexibility to finance it in the most beneficial manner possible and in a way that will not affect the growth of Southland's other businesses.

Last July, Southland signed the first trade agreement between a major corporation and organizations representing both the Black and Hispanic communities. We expect our agreement with People United to Serve Humanity, the League of United Latin American Citizens and the National Hispanic Leadership Conference to benefit your Company, as well as many of the people it serves. The spirit of

The first phase of Southland's 130-acre Cityplace development, outlined on this land planning model (looking south toward downtown Dallas), will include two towers, one of which will house the Company's new headquarters.



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the agreement was exemplified by Southland's contract with the United National Bank of Washington, one of the nation's largest minority-owned and operated banks, to install automatic teller machines in a group of Capitol Division 7-Eleven stores. Significant other opportunities are expected to develop in the areas of minority employment, purchasing, franchising and education.

Southland's capital expenditures, excluding the Citgo acquisition, reached \$288.7 million in 1983. Of this total, 66 percent was invested in the stores segment. At the end of the year, almost 8,100 retail units were in operation, including 7,299 7-Eleven stores, with another 167 under construction.

In January 1984, the Board of Directors increased the annual cash dividend rate by 9.5 percent to 92 cents per share. The first quarterly dividend will be paid March 22, 1984, to shareholders of record on March 1.

The dividend rate for 1984 will result in a 33 percent payout of prior-year earnings, which exceeds Southland's 25-30 percent guideline. Because of the additional 10.7 million shares of common stock outstanding primarily due to the Citgo acquisition, the Board felt an exception was appropriate this year. However, our long-range payout policy remains unchanged.



The "Southland family" raises millions of dollars each year for the March of Dimes, the Muscular Dystrophy Association and other community causes.

The "Southland family" continues to be committed to national and local community causes. Our employees, franchisees, customers and suppliers came through for "Jerry's Kids" for the eighth year by raising over \$5 million for the Muscular Dystrophy Association Labor Day Telethon, bringing total collections to \$30 million. For the second consecutive year, we raised over \$1 million for the March of Dimes "WalkAmerica" in April. In addition, Southland Dairies again served as a major sponsor for the "Mother's March" on Birth Defects in January.

We are very pleased that Dr. Armand Hammer joined our Board of Directors last September after the completion of the Citgo acquisition. As

chairman and chief executive officer of Occidental Petroleum Corporation, he brings us a wealth of knowledge about the petroleum industry. We also want to express our deep appreciation to Clifford W. Wheeler, who was an employee from 1940 to 1979 and in May is retiring from the Board after 24 years of service. We sincerely thank him for his many contributions to the Company.

Your Company has never been stronger. Southland's traditional businesses continue to grow, and substantial opportunities are presented by the Citgo acquisition. During this challenging year, the performance of our employees, franchisees and suppliers has been outstanding. We appreciate your continued support and look forward to an excellent year in 1984.

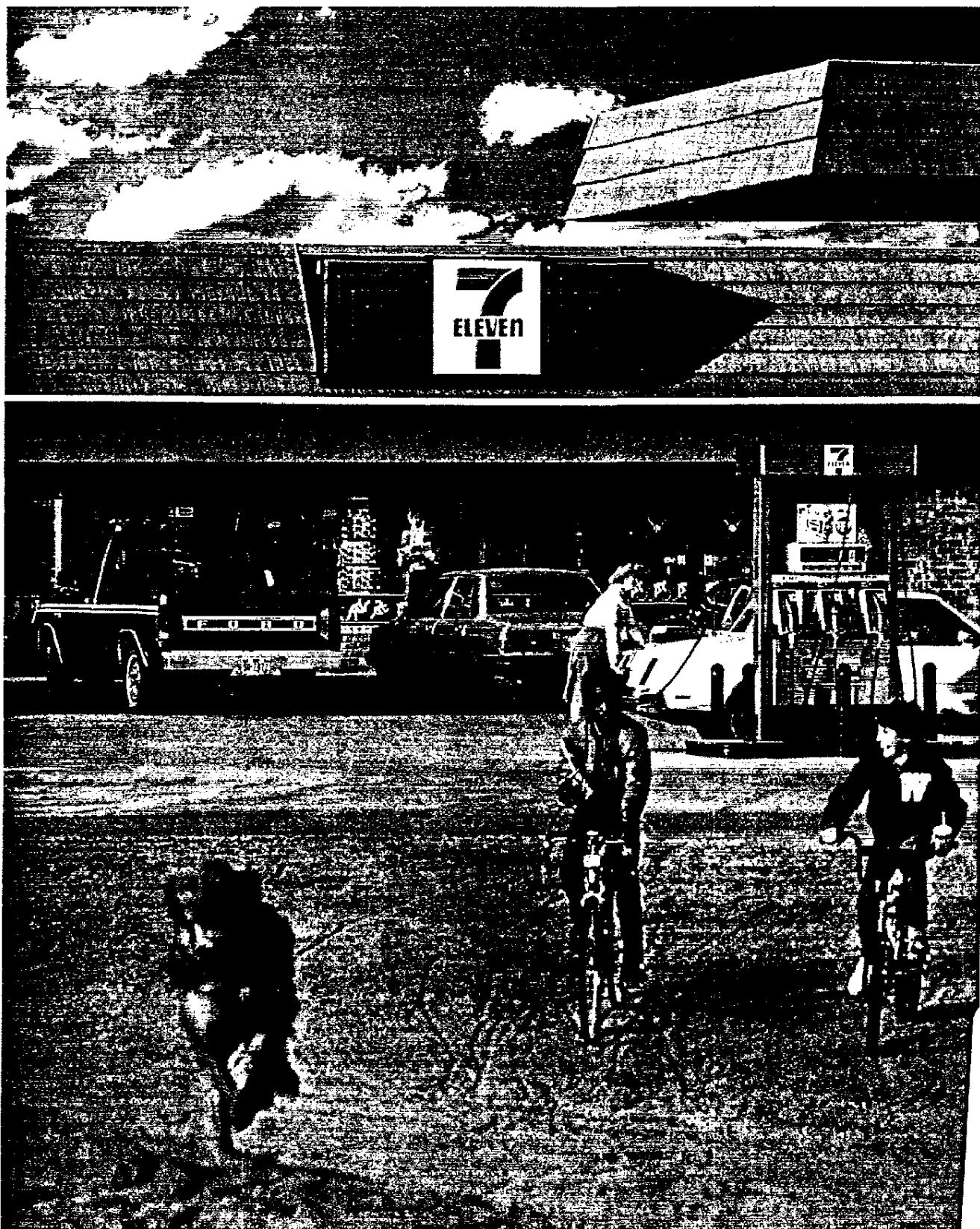
John P. Thompson
Chairman

Jere W. Thompson
President

March 20, 1984

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STORES SEGMENT



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Sales of the stores segment reached a record \$6.68 billion, up 17.1 percent, and represented 75.9 percent of Southland's total revenues. Operating profits for 1983 were \$236.8 million, up 5.3 percent, and accounted for 85 percent of total operating profits.

Revenues of the retail units included in Southland International are not reported in the stores segment. Equity in earnings of affiliates and royalties from area licensees are included in other income.

7-Eleven Sales Approach \$6 Billion For The Year

7-Eleven sales of \$5.94 billion were up 12.1 percent and represented 88.9 percent of total sales of the stores segment. Merchandise and amusement game sales increased 11.8 percent in stores open one year or more, and real growth, after the effect of inflation, was 3.4 percent.

The advantages of operating a geographically dispersed retail chain were once again apparent in 1983. Strong sales and profits in the Northeast and Southeast and on the West Coast helped to offset the impact of an energy-related recession in Texas and Canada, as well as the peso devaluation in markets bordering Mexico. In addition, strong sales in regions enjoying favorable weather partially offset the sluggish performance of store regions affected by an unusually rainy summer or harsh winter.



Citgo's 351 Quik Mart high-volume gasoline units also offer selected convenience merchandise.

(Facing page) "The Dream Begins With Freedom" is 7-Eleven's Olympic marketing theme for in-store promotions and national advertising.

7-Eleven Expands Gasoline Market Share

Southland strengthened its position as the nation's largest independent gasoline retailer by significantly increasing gallonage while total gasoline consumption in the United States showed little growth.

Self-serve gasoline volume reached 1.36 billion gallons, an 18 percent increase following a similar gain in 1982. Average gallonage per store showed excellent gains due to increasing awareness of 7-Eleven gasoline quality, competitive pricing and 24-hour accessibility. Growth also resulted from the net addition of gasoline to 180 7-Eleven stores, increasing the total to 3,007 or 41 percent of all locations.

Self-serve gasoline accounted for over one-fourth of 7-Eleven sales and contributed significantly to merchandise sales, with 34 percent of gasoline customers purchasing other items. Even though retail gasoline prices averaged five cents a gallon less than in 1982, cents-per-gallon gross profit was almost equal to the prior year. Total gross profit dollars were up for 1983 due to the increase in gallonage.

While most of Southland's retail gasoline sales are from 7-Eleven locations, the Company also operates high-volume gasoline units which offer selected convenience items. These include 39 Super-7 locations, mainly on the West Coast, which pump more than 50 million gallons annually. In addition, the 351 Quik Mart locations in Illinois, Texas, Florida, and Massachusetts, as well as parts of the eastern United States added 155 million gallons to the Company total in the four months following the Citgo acquisition. Quik Mart's annualized volume exceeds 450 million gallons, which will increase Southland's total retail volume to about two billion gallons. The Quik Mart units have about 400 square feet of sales space stocked primarily with snack foods, candy, cigarettes and cold drinks.

Operating Results

(Millions)	1979	1980	1981	1982	1983	5 Year Compound Growth
Sales	\$3,453.0	\$4,294.1	\$5,114.5	\$5,708.1	\$6,683.7	19.1%
Operating Profit	143.3	174.4	219.9	224.9	236.8	11.1%



The rapidly growing automatic teller machine program is an extension of the stores' 24-hour-a-day neighborhood convenience concept.

Seven-Eleven Japan Co., Ltd., leads area licensee growth with the recent opening of its 2,000th store.

Sam the Eagle, official mascot of the 1984 Olympic Games, is always a big hit with young 7-Eleven customers.

7-Eleven Store Openings Highest In Four Years

At year-end, 7,299 7-Eleven stores were open in 41 states, the District of Columbia and five provinces of Canada. Franchisees operate 36 percent of these units. The Company added 498 stores, with 90 percent located on highly profitable corner sites, and increased the store total by a net of 134 units. Of the 364 stores closed during the year, 28 units in Ohio were transferred to an area licensee, 78 stores were relocated to better sites, 65 were divested as part of a planned withdrawal from five secondary markets and 193 were closed due to changing market patterns and lease expirations.

Changing Customer Needs Determine Product Mix

More than seven million customers each day shop at 7-Eleven because of its most important fea-



ture – convenience. Part of that convenience is a product mix that is continually modified to fulfill customer wants and needs. New merchandise items and services are added only after thorough evaluation of their compatibility with the 7-Eleven business concept. In this way the sales and profit potential of each square foot of selling space is maximized.

Long-range market forecasting and planning enable 7-Eleven to react quickly to profitable opportunities, with the most recent example being the introduction of automatic teller machines (ATMs). By year-end, Southland and several leading financial institutions had signed agreements to install ATMs in 1,680 7-Eleven stores, with more being negotiated. The Company's agreement with First Texas Savings Association to install machines in 1,000 Texas stores is the largest project of its kind in the nation and will make ATMs at 7-Eleven available to six million cardholders. 7-Eleven offers a new dimension to the convenience of ATMs, with extended hours and potentially more than 8,000 accessible locations in North America. The machines will generate revenues directly through fees and indirectly through increased customer traffic.



7-Eleven not only leads the nation in sales of brewed coffee but also holds third position in fountain soft drinks, even though the soft drink program was introduced nationally in 1980. 7-Eleven continually works to increase the market share of these and other well-established product categories. New jumbo sizes of 7-Eleven coffee and "Big Gulp" fountain soft drinks were successfully introduced in 1983, and the Company also added hot dogs and nachos, both of which are considered strong growth products in the fast foods area.

National Advertising Provides Maximum Marketing Impact

Southland is the only convenience retailer with sufficient geographic diversity to benefit from the efficiencies of national advertising, and uses product advertising and image-building promotions, such as "America Likes the Freedom of 7-Eleven."

In-store promotions for products such as "Slurpee" resulted in excellent sales gains in 1983. At the same time, advertising emphasizing 7-Eleven's competitive pricing of high-volume, traffic-building

products such as milk, cartons of cigarettes and soft drinks, case beer and other selected items also continued to produce significant sales increases.

In October, Southland introduced its Olympic marketing theme, "The Dream Begins With Freedom," with television commercials featuring top American athletes. This theme, which will highlight many 7-Eleven marketing activities, is an extension of the "Freedom" campaign begun in 1982.

The Company in recent years has become involved in auto racing and a variety of other sports marketing programs because of their appeal to what demographic studies have shown to be the most frequent 7-Eleven shopper, a 25-to-30-year-old male. Because the Olympics are a source of national pride, they appeal to customers of all ages. The 7-Eleven stores, by serving as Olympic information centers and making available special Olympic merchandise, will increase those customers' sense of involvement in the Summer Games.

Employee Training Programs Emphasize Store Productivity

Southland believes that maximum productivity in its stores can only be achieved with knowledgeable franchisees and employees. Three regional training centers, including a new one in Orlando, Florida, supervise field training programs for all levels of employees, from store clerk to district manager. Special programs for franchisees and their employees, including classroom instruction and hands-on experience, are held at two of these centers, in San Diego, California, and Bethlehem, Pennsylvania.

Three New International Area Licenses Signed

Southland International coordinates the activities of 3,030 7-Eleven and other small retail units operated by area licensees or Company subsidiaries in the United States and 10 other countries. The most active licensing areas are the Far East and South Pacific, where license agreements are in effect for six countries.

Seven-Eleven Japan Co., Ltd., which opened its first stores in

1974, added 316 new units for a year-end total of 1,909. Early in 1984, the Japanese licensee celebrated the opening of its 2,000th store, having added 1,000 in the last three years. An area license agreement was signed in April for Singapore, and the first five 7-Eleven stores were operating by year-end. A new license agreement was also signed for the Philippines, and construction began in December on the first two stores in Manila. In Australia, 64 stores were open, up three from last year, and the licensee in Taiwan added a net of four units to bring its total to 62. The Hong Kong licensee operated 59 stores at year-end, an increase of 26 units from 1982.

A new 7-Eleven area license agreement was also signed for the United Kingdom. Top management of the licensee is experienced in wholesale and retail operations in England, and the first stores are expected to open in the London area in the spring of 1984.

An Olympic decor theme has brought the spirit of the Summer Games to 8,000 neighborhood locations.



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Southland's United Kingdom subsidiary, R S McColl, which at year-end operated 337 units in Scotland and England, is modernizing and expanding its confectionery, tobacco and news (CTN) stores to strengthen its market position. The Company's subsidiary in Sweden operated 47 7-Eleven/näröppet stores, four more than last year. Southland also owns an equity interest in 32 Super Siete convenience stores in Mexico, an increase of 13 from 1982.

Southland first undertook its area licensing program in 1968 with a domestic agreement with Garb-Ko, Inc., in Saginaw, Michigan. Fifteen years later, nine North American licensees operate 7-Eleven stores in designated areas in 21 states and five maritime provinces of Canada. These licensees added 37 stores for a total of 515 at the end of the year. In addition, a new license agreement was signed for Alaska in early 1984.

Gristede's Moves To Strengthen Manhattan Market Position

Gristede's has offered premium-quality groceries and personalized



French bread pizza is one of the many items produced at Southland's six food centers for 7-Eleven and other customers.

service to customers in the greater New York City area for over 90 years. At year-end, 50 Gristede's and 17 Charles & Co. sandwich and gourmet shops were open. During 1983, operations were streamlined to improve profitability and concentrate on serving New York City customers. As part of this strategy, Gristede's closed 17 stores outside Manhattan and its warehouse. Gristede's supermarkets and service stores in Manhattan, where it has excellent name identification and market position, together with

its Charles & Co. stores, are scheduled to undergo a modernization program beginning in 1984.

Food Centers Emphasize New Products, Packaging

Southland produces a complete line of sandwiches and other fast food items such as French bread pizza, burritos and snack cakes at its six food centers, located at each of the distribution centers and in Salt Lake City and St. Louis. The products are distributed nationwide to 7-Eleven and a growing number of outside customers.

The "Aunt Bea's" line of high-quality, single-portion bakery products enjoyed an extremely successful first year, with sales reaching 5.2 million units. In 1983, the food centers also processed 51 percent more flavored syrup for "Slurpees," the semi-frozen carbonated drink available only at 7-Eleven, and expanded sales of the "Smileys Vend-Line" products to vending and concessions accounts.

During the year, the Salt Lake City plant repackaged its very successful burrito line under Southland's new "Casa Buena" label and is introducing three new specialty burritos. Two other repackaging programs were completed during the year, with French bread pizza now being marketed under Southland's "Italini" label and sandwiches under the "Deli Shoppe" name.

Distribution Centers' Total Sales Exceed \$1 Billion For First Time

Southland's four regional distribution centers, located in Florida, Illinois, Texas and Virginia, continued to record strong operating gains. Total sales reached a record \$1.04 billion, up 17.8 percent. The

PERCENT CONVENIENCE STORE SALES (by Principal Product Category)

	1983	1982	1981	1980	1979
Gasoline	25.5%	25.3%	25.3%	23.0%	17.2%
Tobacco Products	13.8	13.1	12.1	12.3	12.9
Beer/Wine	11.8	11.9	11.7	11.7	12.4
Groceries	10.5	10.8	11.5	12.4	12.6
Soft Drinks	10.4	9.8	10.0	10.1	10.3
Non-Foods	7.5	8.7	8.1	8.0	8.7
Dairy Products	5.7	5.9	6.3	6.7	8.4
Other Food Items	4.6	5.0	5.2	5.6	6.2
Candy	3.9	3.9	4.0	4.0	4.3
Baked Goods	3.5	3.0	3.2	3.4	3.8
Health/Beauty Aids	2.8	2.6	2.6	2.8	3.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%

The Company does not record sales by product lines, but estimates the percentage of convenience store sales by principal product category based upon total store purchases.

centers serve retail and food service customers in 35 states and the District of Columbia, including 4,730, or 65 percent of the 7-Eleven stores.

Sales to outside customers were \$244 million, or 23.5 percent of the total. This 50 percent increase in outside sales resulted mainly from growing customer recognition of the value of ordering merchandise from a single supplier offering a selection of over 1,700 items, as well as a 99 percent order fill rate. The centers currently serve over 1,100 food service accounts, including a growing number of full-menu restaurants. In addition to 7-Eleven, they also supply more than 1,600 other convenience stores and retail units, up substantially from 1982.

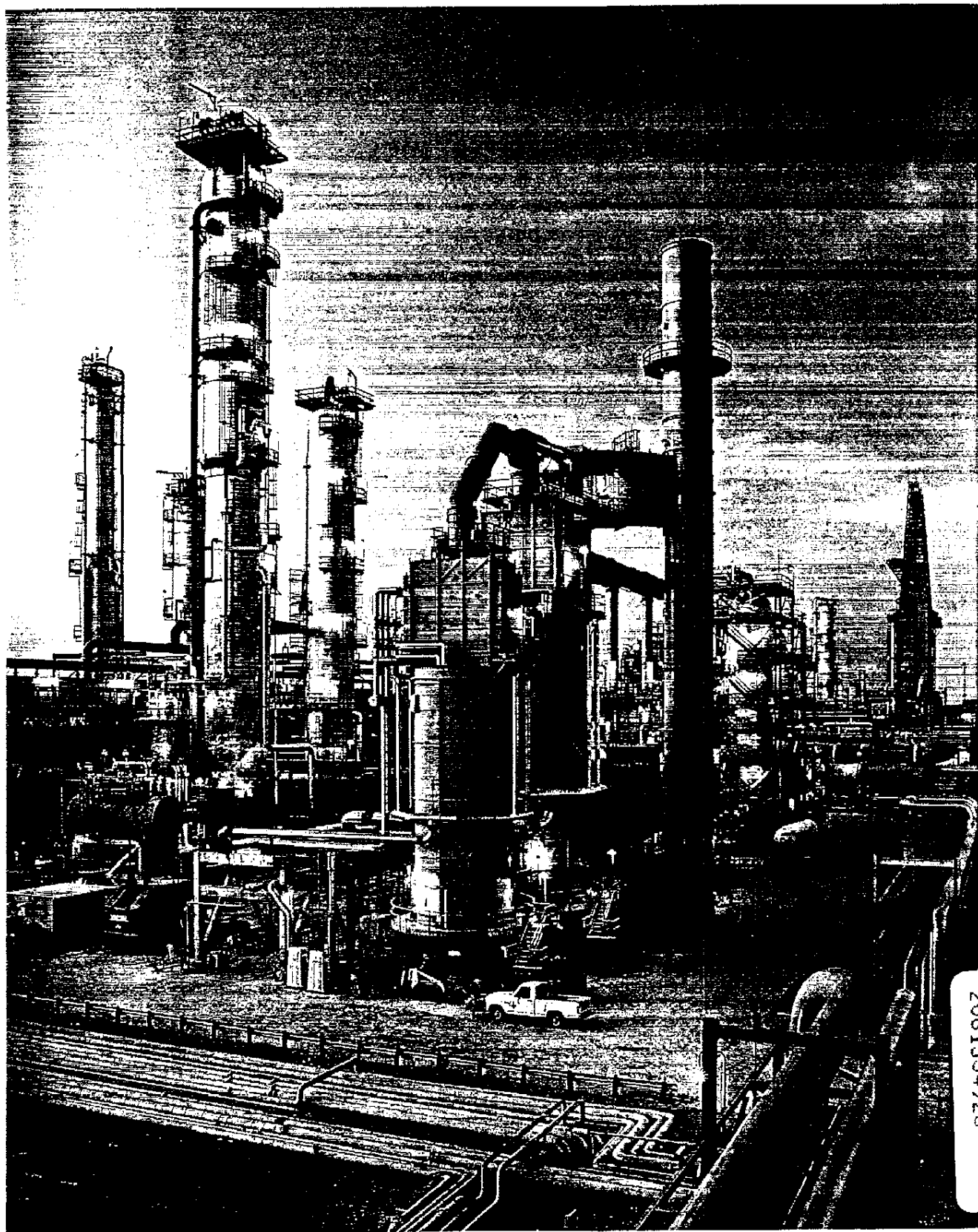
One of the centers' most important advantages is less-than-case-lot ordering, which enables 7-Eleven and other retail customers to improve inventory turnover, maintain fresher merchandise, and produce higher sales and profits from their limited selling space.

Late in the year, Southland announced plans to construct its first distribution center on the West Coast in San Bernardino, California, with completion scheduled for late 1985. A new, highly efficient design developed from experience with the other centers will permit this center to be smaller in square footage, yet accomplish the same functions as a much larger facility.

Southland's four highly automated distribution centers provide customized merchandise support to 7-Eleven and 2,700 outside accounts.



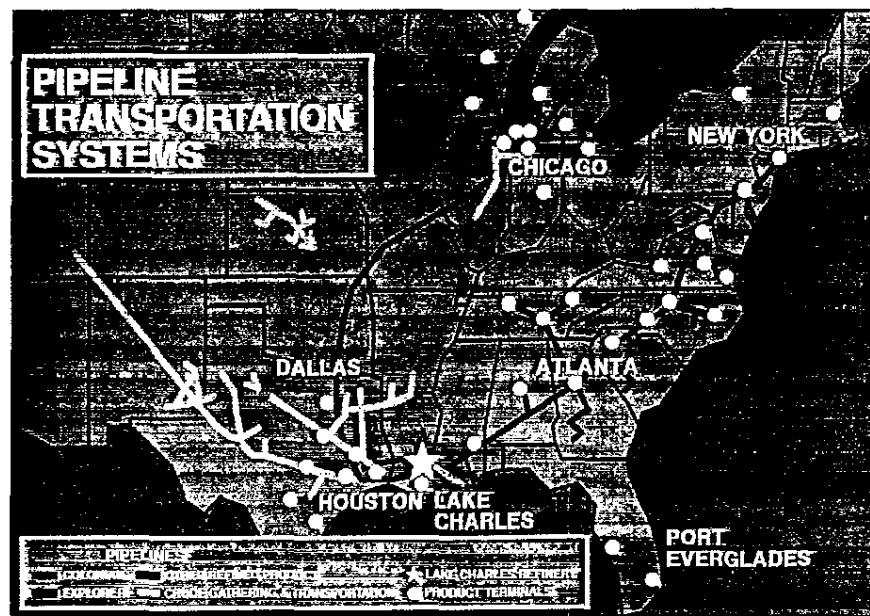
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The gasoline refining and supply segment includes the Gasoline Supply Division, formed in December 1981 primarily to procure and distribute gasoline to 7-Eleven, and Citgo's refining, marketing and transportation operations. Results of the Quik Mart locations, which were included in the acquisition, are reported in the stores segment. Income from Citgo's varying interests in 16,000 miles of refined product and crude oil gathering pipelines is reported in other income. Total segment sales, which included Citgo for four months, were \$2.86 billion, of which \$1.55 billion or 54 percent was to outside customers.

Sales from the wholesale business of the Gasoline Supply Division were ahead of 1982. Its operating profit was \$10 million in 1983, compared with \$23 million the prior year. Citgo made a positive contribution to segment profits.

In late November and early December, refined product margins eroded as prices for refined products in general fell without corresponding reductions in crude feedstock costs. This condition improved in late December, as refinery margins increased due to higher prices for heating oil and gasoline resulting from extremely cold weather conditions in most areas of the nation.



The Lake Charles refinery operated very near its practical capacity throughout much of the last four months of 1983, reducing average operating cost per barrel of crude processed. If both the coker and hydrocracker had been on line and at full operating capacity during that time, the refinery would have been in an even better position to maximize profit potential.

Citgo Includes Several Operations

Citgo's refining, marketing and transportation operations include several important businesses:

- The Lake Charles refinery complex, the tenth largest in the United States with nameplate capacity of 320,000 barrels per

Citgo's assets include varying ownership interests in 16,000 miles of crude gathering and refined product pipelines. In addition, 40 strategically located Southland and Citgo terminals facilitate distribution to the Company's retail outlets and outside customers.

(Facing page) Citgo's recently completed hydrocracker and coker projects enable the refinery to produce more valuable transportation fuels and process larger quantities of heavy sour crude.

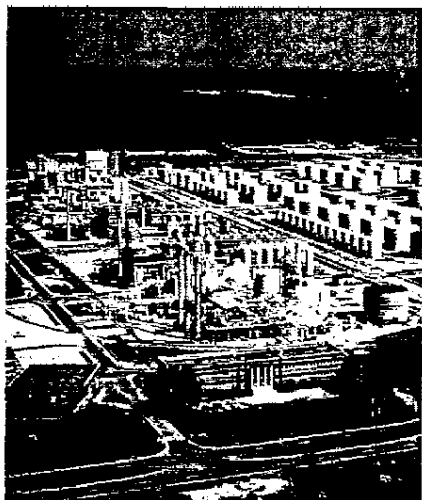
calendar day, and one of the most technologically sophisticated in the world;

- The Lubricants and Specialty Products Division, which includes a compounding plant for processing more than 200 Citgo

Operating Results

(Millions)	1981	1982	1983
Outside Sales	\$ 84.8	\$ 542.6	\$1,554.7
Intracompany Sales	18.5	713.2	1,305.8
Total	103.3	1,255.8	2,860.5
Operating Profit	3.0	23.0	22.7*

*Does not include \$7.4 million of equity in earnings of pipeline companies.



Citgo's Lubricants and Specialty Products Division includes a 65 percent interest in the Cit-Con lubricants refinery, also located at Lake Charles.

Production and product quality are monitored by a highly automated, computerized system at the Lake Charles refinery.

and private-brand lubricants in Cicero, Illinois, and a 65 percent interest in the Citgo-operated Cit-Con lubricants refinery at Lake Charles, the sixth largest in the United States;

- Citgo's wholesale marketing business, which supplies gasoline and other products to 637 dealers, 345 independent distributors serving 4,000 outlets in 30 states, and 7-Eleven and Quik Mart stores, in addition to providing turbine fuel to major airlines at six airports;
- Total or partial ownership of 32 refined product terminals situated near the pipeline system.



Citgo Moves To Increase Efficiency

Citgo has intensified its programs to reduce operating costs and improve profit potential in several significant areas:

- Steps were taken to ensure that the coker and hydrocracker were completed and placed in operation as quickly as possible.
- Crude and refined product inventories were reduced from historic levels, thereby lowering carrying costs.
- Negotiations were successful in securing long-term supplies of Venezuelan and Mexican crude oil, especially heavy sour crude.
- Production and sale of higher-value transportation fuels were emphasized, as was the sale of higher-margin finished lubricants to industrial and distributor accounts.

A half-billion-dollar capital expenditure program was begun in 1980 by the former owners to in-

crease the processing capacity and operational flexibility of the Lake Charles refinery. Two of the projects were completed prior to Southland's acquisition of Citgo. A 45,000 barrels-per-day catalytic reformer, which enables the refinery to produce a greater proportion of unleaded gasoline, became operational in 1982, as did a crude debottlenecking project which increased the refinery's nameplate capacity.

In September 1983, a new coking unit began operation, almost tripling the refinery's capacity to process additional heavy, high-sulfur or "sour" crudes which are more abundant and less expensive than the lighter, lower-sulfur crudes required by most refineries.

The last major component in the refinery's 1980 upgrading program is a 30,000 barrels-per-day

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hydrocracker, completed in March 1984, which enables the refinery to increase the yield of high-value gasoline and other transportation fuels. It also increases the refinery's flexibility to adjust product yields rapidly in response to changing market conditions.

Refinery Has Excellent Access to Feedstocks

The refinery's proximity to major pipelines and important ports gives it ready access to plentiful crude oil supplies in Texas, Oklahoma, Kansas, Arkansas, Louisiana and New Mexico, as well as to international suppliers.

Citgo is maximizing utilization of the coker and reducing the average cost of feedstocks by shifting to a greater proportion of heavy sour crude.

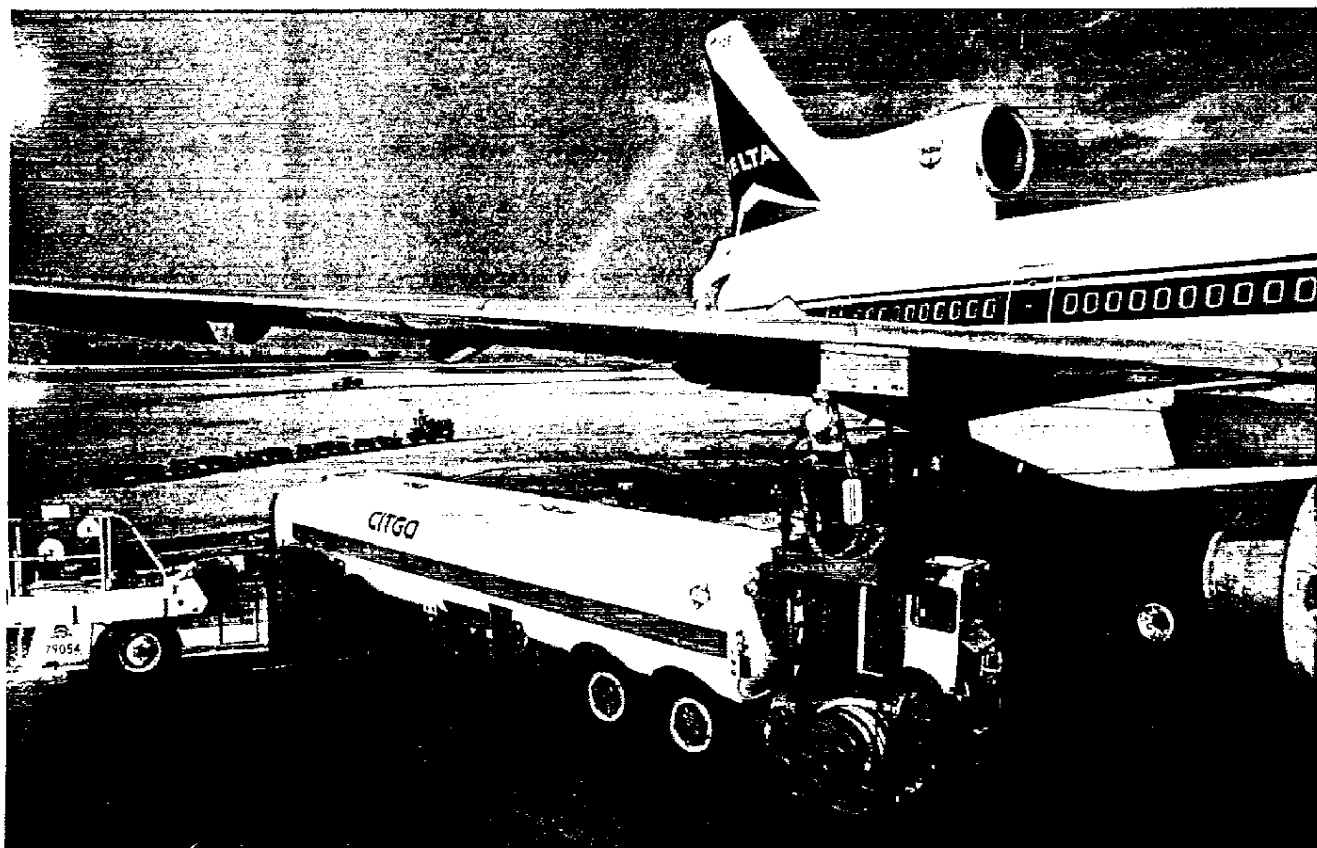
In addition to supply contracts for Mexican and Venezuelan heavy sour crude, Citgo also has the right to purchase from Occidental Petroleum Corporation crude production previously dedicated to the refinery, as well as production from future oil discoveries near Citgo's pipeline network.

Refined Product Pipelines, Terminals Benefit Transportation

Citgo owns a 13.98 percent interest in the 5,248-mile Colonial pipeline, the principal means for transporting Gulf Coast refined products to 13 Sunbelt and Eastern Seaboard states, and a 6.8 percent interest in the 1,397-mile Explorer pipeline, serving major markets in the Midwest. Citgo also holds various interests in five other refined product pipeline companies which operate more than 1,300 miles of pipeline.

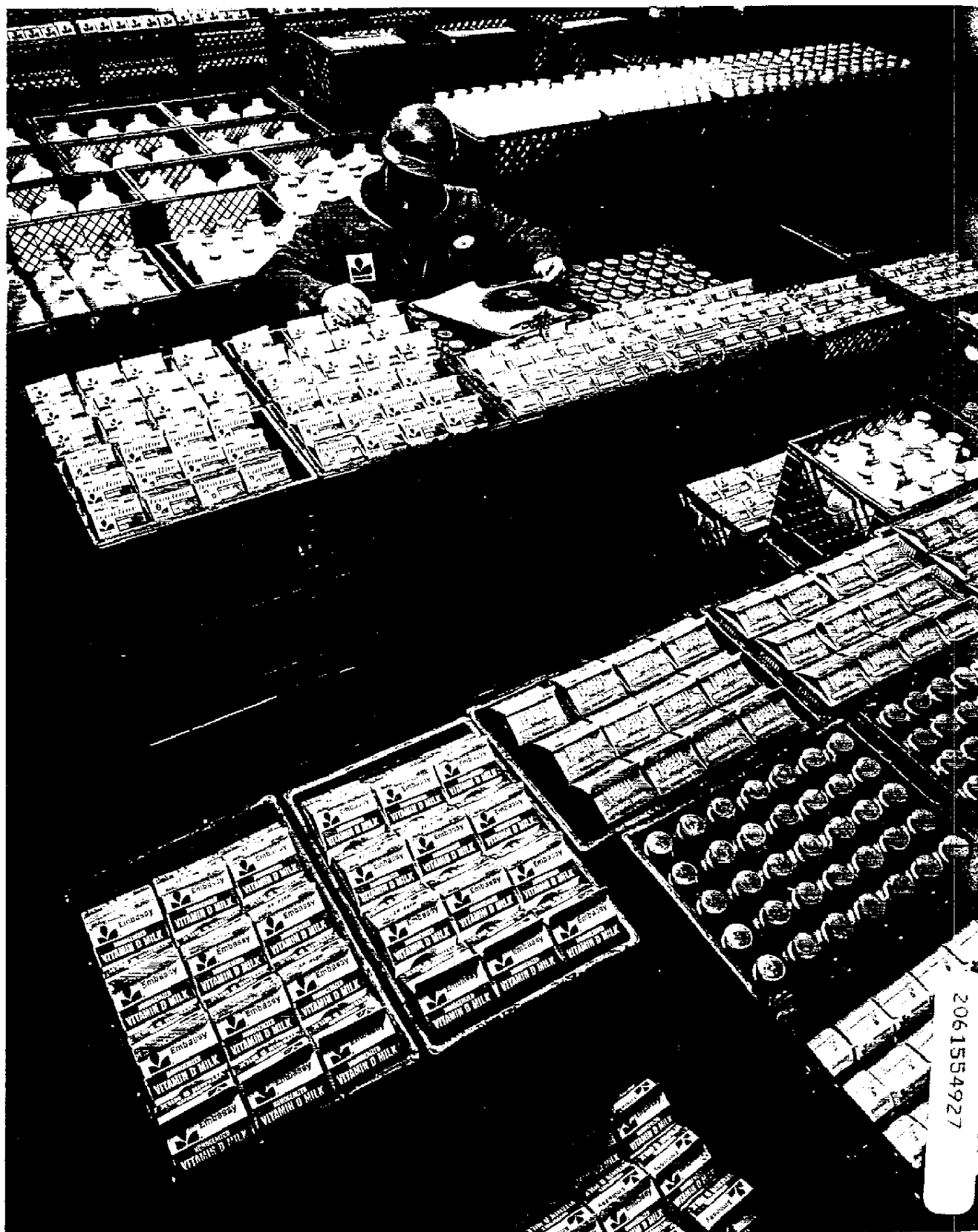
Additional holdings include partial or total ownership of 32 refined product terminals. When added to Southland's eight terminals in Texas, total storage capacity is about 16.5 million barrels. The terminals are well located near major 7-Eleven and Quik Mart market areas, and product exchange agreements with another 131 terminals owned by other companies substantially increase Citgo's marketing and distribution flexibility.

Citgo supplies turbine fuel to national and regional airlines at airports in Miami, Orlando, Atlanta, New York, Chicago, Nashville and Dallas.



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DAIRIES SEGMENT



The dairies segment operates under 11 well-known regional brand names and distributes products in all 50 states, the District of Columbia and Canada. As one of the nation's largest dairy processors and distributors, the group has 20 processing plants and 73 distribution points strategically located to serve its major markets. Its expanding customer base includes institutional, food service and other outside customers, as well as 5,256 7-Eleven stores, which are supplied with milk, ice cream, frozen confections, cultured products, ultra-pasteurized creams, juices, juice-based drinks and related products.

Operating profits were up 36 percent to \$17 million due to improved gross margins and a reduction in operating costs as a percentage of sales. These improvements resulted in part because of the planned closings of three marginal facilities. The segment replaced about \$30 million of sales formerly generated by these closed plants, and, as a result, segment sales were up 2.7 percent to \$601 million. Outside sales were \$346 million, or 3.9 percent of Southland's total sales.

Dairies Expand Capacity For Higher-Margin Products

In 1983, the dairies also continued to expand processing capacity for

those products with higher margins and strong growth potential. Major additions included ultra-pasteurization processing and filling capability at the Adohr Farms plant in Tulare, California; juice blending and bulk frozen concentrate storage at the Sulphur Springs, Texas, Specialty Products plant; and expanded processing capacity for frozen novelties at Merritt Foods in Kansas City, Missouri.

Growth Continues For Frozen Novelties, Juices

With Merritt Foods producing its own line of frozen confections and other divisions also processing and distributing a wide range of items, Southland Dairies is one of the major manufacturers of frozen novelties in the United States. The "Mission San Juan" all-natural premium juice line, introduced nationally in 1982, continues to sell extremely well in 7-Eleven stores and is now being made available to outside customers. In addition, more flavors were added to the well-established "Farmfield" line of juice drinks. The dairies segment, which also manufactures several unique branded products under licenses from other companies, became the exclusive manufacturer and distributor of the Dole "Fruit 'N Juice Bar," an all-natural frozen confection that has quickly developed broad consumer appeal.



Barricini ice cream is one of the many higher-margin items developed and marketed in response to a growing demand for premium quality products.

(Facing page) Southland's dairies process and distribute a wide variety of milk and specialty products under 11 regional brand names throughout the United States and Canada.

Advertising Gets New Look

The dairies introduced a new advertising program promoting milk. Its "Milk on Ice" commercial, seen in major markets across the country, captured the attention of consumers and won three national advertising awards. A commercial for Barricini ice cream, which is produced and marketed by Embassy and Velda Farms Dairies, also received national attention.

Operating Results

(Millions)	1979	1980	1981	1982	1983	5 Year Compound Growth
Outside Sales	\$313.9	\$358.5	\$368.2	\$355.0	\$345.6	6.5%
Intracompany Sales	158.6	175.2	198.3	229.8	255.0	13.5
Total	472.5	533.7	566.5	584.8	600.6	9.1
Operating Profit	9.7	15.3	13.3	12.5	17.0	22.8





The special operations segment is comprised of several diversified businesses which produce and market products to other Southland operations and a growing number of outside customers. Segment sales were up 23.8 percent to \$204.1 million, with outside sales providing 2.1 percent of total Company sales. Both Chief Auto Parts and Tidel Systems showed substantial improvement in profitability. Pate Foods, a new division acquired at mid-year, extends the Company's involvement in snack items. This segment reported an operating profit of \$1.4 million, compared with a \$3.1 million loss in 1982, primarily due to the improved performance of Chief.

Chief Nears Break-even For Year

Chief Auto Parts, which opened its 300th store in January 1984, is one of the nation's leading convenience retailers of automobile replacement parts and accessories. At year-end,



296 stores were in operation, primarily in California and Texas, as well as in Nevada, Arizona and Oklahoma.

On a segment basis, Chief was near break-even in 1983, compared with an operating loss of \$5.4 million last year. Sales increased over 25 percent because of solid gains in stores open more than a year and the higher sales levels of newly opened stores due to improved store merchandising and site selection techniques. Chief's turnaround resulted from not only the substantial increase in sales, but also a significant improvement in gross margin and lower operating costs, partly due to a more efficient warehouse operation.

Chief opened 46 stores during the year and closed 23, including 17 in California that were relocations to better sites. After rapid expansion to establish its market position, Chief has been emphasizing merchandising in existing stores to increase unit sales and profit potential. Stores are now open 16 hours per



Reddy Ice, Tidel Systems and Southland Chemical have expanded their outside business while supporting 7-Eleven stores and other Company operations. Reddy Ice acquired its eighth plant, while Tidel developed new options for the TACC-II, and Chemical increased its emphasis on high-quality food ingredients, such as yogurt flavorings.

(Facing page) Chief's successful remerchandising program, combined with extended operating hours, is introducing convenience to the growing do-it-yourself auto parts market.

day, and selected stores in major markets are open around the clock. Chief continually refines its product line and customizes inventory for maximum customer appeal in individual markets. In addition, new store employees are receiving expanded training to better serve the special needs of do-it-yourself automotive parts customers, about 60 percent of all car owners.

Tidel Adds Products To Line

Tidel Systems, which manufactures and markets the "Timed Access

Operating Results

(Millions)	1979	1980	1981	1982	1983	5 Year Compound Growth
Outside Sales	\$ 89.3	\$106.1	\$126.1	\$151.2	\$188.1	36.5%
Intracompany Sales	23.2	16.2	14.1	13.7	16.0	.9
Total	112.5	122.3	140.2	164.9	204.1	30.0
Operating Profit	7.4	(3.1)	(9.5)	(3.1)	1.4	(24.2)



Pate Foods, acquired in July 1983, continues Southland's expansion into the snack food market.

Cash Controller" (TACC II), reported both sales gains and improved profits during the year. New options were developed for the TACC II, the microprocessor-controlled cash dispensing system and drop safe, including a system to monitor employee access to the machine.

In addition, the division began to market the "Cashier," a modular TACC designed for larger retail stores with multiple sales counters, and tested the "Depository," a safe used for holding cash overnight. A prototype of the "Gas Tank Monitor," which uses sonar and microprocessor technology for centralized inventory control of multiple gasoline storage tanks, is also in the testing phase.

Tidel continues to increase utilization of its metal fabricating capability to manufacture non-security-related items such as carts, dollies, carton cigarette merchandisers and

stainless steel fast food counters, primarily for 7-Eleven and other Southland operations. These products now account for one-third of Tidel's total sales and were up strongly from the prior year.

Southland Food Labs Produce Broad Line of Food Ingredients

Southland Chemical manufactures a broad line of food ingredients and specialty chemicals used by other Southland operations and numerous outside customers. The Southland Food Labs in Dallas, Texas, and Sanford, Florida, which account for 38 percent of division sales, showed continued sales and profit improvement. The food labs manufacture a wide range of products for the dairy, bakery and food processing industries, including preservatives, emulsifiers, flavorings, cleansers and sanitizers, as well as "Slurpee" flavor concentrates. In addition, "Nature-Lock" aseptically processed fruits and flavors are produced for Southland's dairies and other customers.

Total sales, including 79 percent to outside customers, increased four percent, even though decreased farm planting greatly reduced demand for agricultural chemicals produced by the Great Meadows, New Jersey, plant. Although increased labor productivity and other cost control measures improved the profitability of the Chicago plant, demand for its oil field and other industrial compounds continued to be depressed.

Reddy Ice Expands Market Area

Reddy Ice continued its emphasis on outside sales with the acquisition of an ice plant in Oklahoma City, Oklahoma, a new market for the division. Sales increased 17.8 percent, with outside customers accounting for 68 percent of the total. Production at the division's Las Vegas, Nevada, plant was increased to serve 7-Eleven stores in the Salt Lake City market. Other ice plants are located in Dallas, Houston, Pasadena, Austin and Waco, Texas, and Ft. Lauderdale, Florida. Although Texas is the largest market for Reddy Ice, the division also serves Nevada, Utah, California, Arizona, Oklahoma, Louisiana, Florida and Kansas.

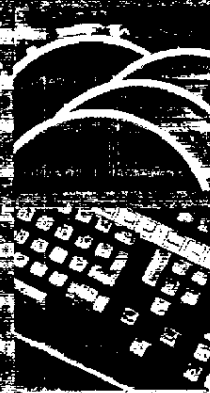
Pate Foods Specializes In Corn-Based Snack Foods

Pate Foods, located in Beloit, Illinois, was acquired in July 1983 as part of Southland's expansion into snack foods and other high-margin food items. Pate produces a line of corn-based snack food products under its own brand name and private labels for outside customers in the Midwest, and is expanding its capacity to better serve this market.

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The financial policy of Southland is to maintain a balance between sustaining above-average performance on operations and preserving the financial foundation required to support continuing expansion. This has made Southland one of America's most consistently successful companies. The addition of Citgo will strengthen Southland's basic retail business and the potential of significantly increased earnings in the future. While this transaction has currently altered some of the Company's financial comparisons, many now are stronger and all are appropriate for a company dedicated to its continued growth.



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SELECTED FINANCIAL DATA

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	1983	1982	1981	1980	1979
Operations	(Dollars in thousands, except per-share data)				
Net sales	\$8,772,067	\$6,756,933	\$5,693,636	\$4,758,656	\$3,856,222
Other income	32,943	25,450	40,524	23,949	19,837
Total revenues	8,805,010	6,782,383	5,734,160	4,782,605	3,876,059
Increase over prior year	29.82%	18.28%	19.90%	23.39%	25.43%
Net earnings	131,768	108,051	92,860	76,506	81,251
Increase over prior year	21.95%	16.36%	21.38%	(5.84)%	44.54%
Per revenue dollar	1.50%	1.59%	1.62%	1.60%	2.10%
Return on average shareholders' equity	15.38%	16.57%	16.15%	14.90%	19.05%
Pro forma earnings*	131,768	108,051	92,860	76,506	66,383
Assets Employed					
Working capital	582,855	113,012	165,852	199,402	159,094
Current ratio	1.58	1.22	1.36	1.53	1.51
Property, plant and equipment including capital leases (net)	1,589,924	1,159,337	963,865	854,010	838,796
Depreciation and amortization	143,105	121,701	100,831	89,847	79,111
Total assets	3,309,455	1,842,254	1,654,598	1,496,242	1,367,575
Capitalization					
Long-term debt	940,878	386,304	320,918	312,535	326,893
Capital lease obligations	184,765	196,676	213,585	224,753	226,257
Shareholders' equity	1,074,962	703,348	612,221	545,282	489,721
Total capitalization	2,200,605	1,286,328	1,146,724	1,082,570	1,042,871
Debt-to-equity ratio	1.10	.87	.91	1.03	1.18
Per Share Data					
Primary earnings	3.26	3.02	2.61	2.16	2.43
Earnings assuming full dilution	3.21	2.94	2.54	2.10	2.35
Pro forma primary earnings*	3.26	3.02	2.61	2.16	1.99
Pro forma earnings assuming full dilution*	3.21	2.94	2.54	2.10	1.93
Cash dividends	.84	.77	.70	.62	.52
Shareholders' equity at year-end	22.94	19.48	17.23	15.37	13.82
Other Data					
Cash dividends	35,329	27,657	24,859	21,511	17,382
Dividends as a % of prior-year net earnings	32.70%	29.78%	32.49%	26.47%	30.92%
Average shares outstanding	40,393,082	35,772,689	35,513,515	35,460,071	33,411,394
Average diluted shares	41,146,341	36,970,068	36,899,129	36,875,263	34,901,913
Market price range					
High	48¼	31½	23¾	19½	20¼
Low	25¼	17	13¾	11¾	15¼
Year-end	32¼	25¾	21½	13¾	18¾
Number of shareholders	8,568	7,532	7,336	8,429	8,708
Number of employees	60,800	49,900	49,600	46,800	44,300

*Net earnings and net earnings per share for 1979 have been restated on a pro forma basis to reflect the 1979 change in accounting for investment tax credits.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Acquisition of Citgo Petroleum Corporation

On August 31, 1983, Citgo Petroleum Corporation became a wholly owned subsidiary of the Company, and its results of operations are included in the Company's financial statements subsequent to that date. The purpose of this acquisition was to strengthen the Company's position as a convenience store retailer by increasing its efficiency through improved access to adequate gasoline supplies. In addition, it allowed the Company to substantially expand the wholesale gasoline business of its Gasoline Supply Division, which was formed in December 1981 to better control the supply and distribution of gasoline to 7-Eleven stores at competitive market prices. The Citgo operation, with the exception of its Quik Mart retail gasoline and mini-convenience store locations, has been combined with the Gasoline Supply Division to form the gasoline refining and supply segment. The Quik Mart locations have been included in the stores segment.

RESULTS OF OPERATIONS:

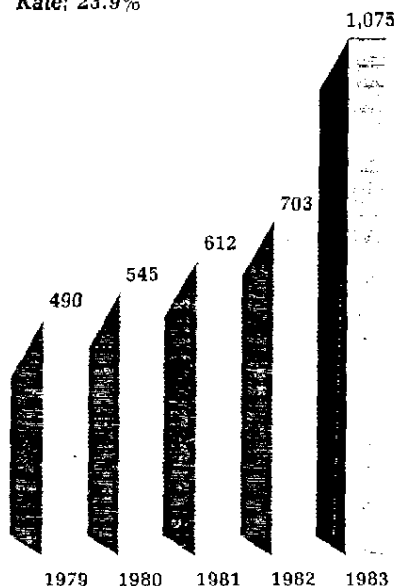
Revenues

Revenues (net sales of products and merchandise, including sales by 7-Eleven stores operated by franchisees, and other income) established record highs in each of the past three years. The four months of operations for Citgo were responsible for \$1.20 billion or 17.7 percentage points of the increase in 1983.

Revenues (Millions)	1983	% Gain	1982	% Gain	1981	% Gain
Net sales:						
Stores	\$6,683.7	17.1	\$5,708.1	11.6	\$5,114.5	19.1
Gasoline re- fining and supply	1,554.7	186.5	542.6	539.9	84.8	—
Dairies	345.6	(2.6)	355.0	(3.6)	368.2	2.7
Special operations	188.1	24.4	151.2	19.9	126.1	18.9
Total sales	8,772.1	29.8	6,756.9	18.7	5,693.6	19.6
Other income	32.9	29.4	25.5	(37.0)	40.5	69.5
TOTAL	\$8,805.0	29.8	\$6,782.4	18.3	\$5,734.1	19.9

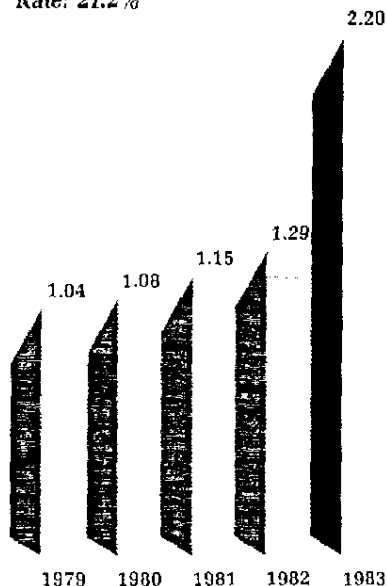
TOTAL SHAREHOLDERS' EQUITY (Dollars in Millions)

Compound Growth
Rate: 23.9%



TOTAL CAPITALIZATION (Dollars in Billions)

Compound Growth
Rate: 21.2%



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The stores segment accounted for 76%, 84% and 90% of total sales in 1983, 1982 and 1981. 7-Eleven volume in 1983, representing 68% of total sales, increased 12.1% to \$5.94 billion, following gains of 12.1% to \$5.30 billion in 1982 and 19.1% to \$4.73 billion in 1981.

For 1983, 7-Eleven merchandise sales (which do not include amusement games) were up 12.5% to \$4.37 billion after increases of 11.9% and 14.3% in 1982 and 1981. These gains resulted from inflation and real growth and the net addition of 134, 163 and 107 7-Eleven stores in 1983, 1982 and 1981. More efficient use of selling space, increased advertising, new products and services, and traffic-building competitive pricing of selected items, especially milk, case beer, carton cigarettes and soft drinks, contributed to the gains. Sales increases in 1983 and 1982 reflected a slowing of the inflation rate in 7-Eleven's merchandise mix to 5% in both 1983 and 1982, down from 8% in 1981.

Self-serve gasoline, the largest single product category in the 7-Eleven sales mix, was 25.5% of 7-Eleven stores sales in 1983, up over the 25.3% recorded in both 1982 and 1981.

7-Eleven	% 1983		% 1982		% 1981	
Gasoline	Gain		Gain		Gain	
Sales						
(Millions)	\$1,516.6	13.1	\$1,341.5	12.2	\$1,195.4	30.9
Gallons						
(Millions)	1,361.2	17.7	1,156.1	20.9	956.0	20.6
Number of stores	3,007	6.4	2,827	12.3	2,517	12.1

Gasoline sales increased in 1983 and 1982 despite lower retail prices because of higher gallonage per store and a larger number of stores with gasoline. In 1981, gallonage and price increases accounted for the sales gain.

In addition to the 7-Eleven stores with self-serve gasoline, the Company operates 390 self-serve, high-volume retail gasoline units which offer selected convenience items. At year-end, these included 39 Super-7 locations as well as 351 Quik Mart locations. Together, these units added 212 million gallons to total retail volume in 1983.

Sales to outside customers for the gasoline refining and supply segment accounted for 18% of the Company's total sales in 1983. During its first full year of operation in 1982, the Gasoline Supply Division accounted for 8% of total sales.

The dairies segment accounted for 4% of total sales in 1983, 5% in 1982 and 6% in 1981.

The special operations segment represented 2% of total sales in each of the three years.

Other income (area license royalties, interest income, equity earnings of pipeline companies and affiliates, and net gain on sale of assets no longer of use to the Company) is included in total revenues. Other income rose 29.4% in 1983 due to Citgo's equity earnings of pipeline companies which more than offset a decline in interest income. In 1982, other income decreased 37.2% because of reduced interest income caused by the deployment of investable cash into fixed assets. Other income was up 69.2% in 1981 because of increased interest income resulting from high interest rates and substantial levels of investable cash.

Gross Profits and Margins

Gross profits (sales less cost of goods sold) were up 13.4%, 13.5% and 15.9% compared with sales gains of 29.8%, 18.7% and 19.6% in 1983, 1982 and 1981. For the same periods, gross margins (gross profits divided by sales) were:

Gross Margins (Percentage)			
QUARTERS	1983	1982	1981
First	18.66	19.34	20.86
Second	20.84	21.46	22.93
Third	19.45	21.84	22.48
Fourth	14.84	20.41	20.65
Year	18.18	20.82	21.76

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In 1983, gross margins for the Company declined primarily because of decreases in retail and wholesale gasoline margins and amusement game revenues. The third and fourth quarters were also affected by Citgo's low-margin high-volume business. Gross margins declined in 1982 mainly due to the decreases in retail gasoline margins and the addition of low-margin wholesale gasoline sales resulting from the formation of the Gasoline Supply Division in December 1981. The Company's gross margins declined .70 percentage points in 1981 because of increases in gasoline sales as a percentage of total 7-Eleven sales and lower retail gasoline margins.

Gross margins for 7-Eleven merchandise (which does not include amusement games) improved slightly in 1983 due to increased sales of high-margin products such as fountain soft drinks, non-foods, candy and snack items. However, slightly lower gross margins for gasoline and a decrease in amusement game revenues caused a decline in the total 7-Eleven gross margin. In 1982 and 1981, the total 7-Eleven gross margins declined, in spite of increased amusement game revenues, as a result of competitive pricing of selected items and lower gasoline gross margins.

Selling, General and Administrative Expenses

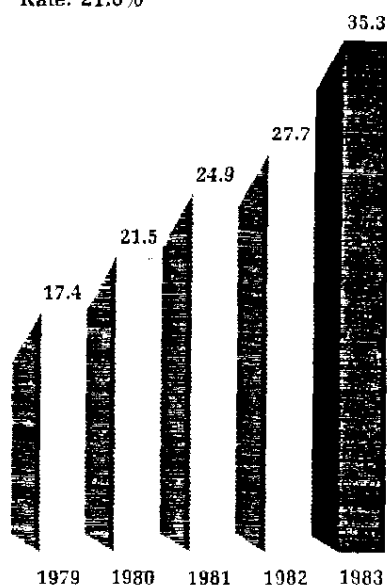
In 1983, 1982 and 1981, selling, general and administrative expenses were up 14.9%, 11.9% and 16.4%, compared with gross profit dollar gains of 13.4%, 13.5% and 15.9%. For the same periods, the ratios of these expenses to sales were:

Selling, General and Administrative Expenses (Percentage)			
QUARTERS	1983	1982	1981
First	17.38	17.78	19.43
Second	17.17	17.24	18.46
Third	15.31	17.55	18.49
Fourth	12.93	17.02	17.58
YEAR	15.38	17.39	18.44

Increases in wholesale refined product sales, primarily from Citgo, which have lower associated selling expenses, caused selling, general and administrative expenses to decrease 2.01 to 15.38% in 1983. The ratio of selling, general and administrative expenses to sales declined 1.05 to 17.39% in 1982, due in part to the growth of retail and wholesale gasoline sales. In 1981, sales increases and cost reduction measures caused the ratio of selling, general and administrative expenses to decrease .51 to 18.44%.

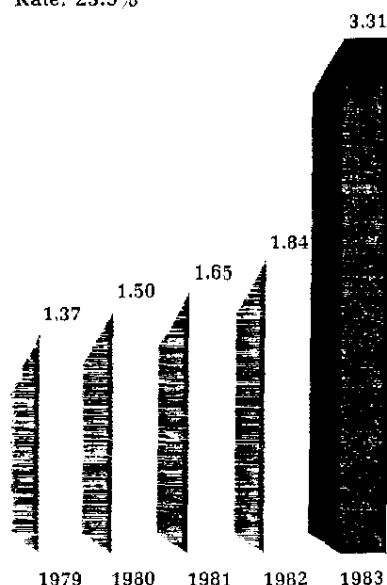
DIVIDENDS (Dollars in Millions)

Compound Growth
Rate: 21.0%



TOTAL ASSETS (Dollars in Billions)

Compound Growth
Rate: 23.9%



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Interest and Imputed Interest Expense

Interest expense, which rose 92.2% in 1983 principally due to the additional debt of Citgo incurred in the acquisition, was up 11.6% in 1982 and 2.9% in 1981. Imputed interest expense on capital lease obligations declined 3.3% in 1983 and 7.4% in 1982, following a gain of 2.5% in 1981, reflecting lower utilization of capital leases.

Income Taxes

Effective federal and state income tax rates of 42.8% in 1982 and 43.6% in 1981 were below the 46% federal statutory tax rate primarily due to investment tax credits. In 1983, the effective tax rate was reduced to 29%, primarily due to investment tax credits and other tax benefits arising from Citgo.

Net Earnings

Net Earnings (Thousands)

QUARTERS	1983	% Gain	1982	% Gain	1981	% Gain
First	\$ 7,720	(18.9)	\$ 9,515	28.4	\$ 7,408	24.1
Second	33,956	(3.4)	35,169	12.5	31,255	28.9
Third	60,074	63.1	36,833	16.6	31,581	18.0
Fourth	30,018	13.1	26,534	17.3	22,616	15.9
TOTAL	\$131,768	21.9	\$108,051	16.4	\$92,860	21.4

Net earnings were higher in 1983 due to the lower effective tax rate resulting from the tax benefits arising from Citgo. Consolidated operating profits were up due to a positive contribution to 1983 results from Citgo, as well as higher 7-Eleven profit and significant profit increases for the dairies segment, the food centers and Chief Auto Parts. These increases were reduced because of lower profit from the Gasoline Supply Division and a decline in profit from amusement games. Profit was also reduced by a loss from Grinstead's which included certain non-recurring costs resulting from a program designed to streamline its operation to improve profitability. Gains in operating profits were offset by higher interest and administrative expenses. In 1982, earnings increased due to gains from the new Gasoline Supply Division and increases in operating profits in

the stores and special operations segments. Earnings gains for 1982 were partially offset by lower interest income resulting from reductions in levels of cash invested, as well as lower average yields than in 1981. The increase in 1981 earnings was due to sales gains, an increase in profit from amusement games and a significant increase in interest income from short-term investments.

LIQUIDITY AND CAPITAL RESOURCES:

A company's liquidity is determined by its ability to generate adequate amounts of cash through internal and/or external sources to meet both its short- and long-term needs. Southland has structured its financings to maximize its flexibility to meet these needs.

In the financing of the Citgo acquisition, bank credit facilities for Citgo were arranged to pay the cash portion of the acquisition costs and fund ongoing working capital and capital expenditure requirements. As an obligation of Citgo, this debt is not included in limits on borrowing imposed by Southland's existing public indentures. The maximum outstanding to date has been \$660 million, and it is anticipated that these facilities will provide all of Citgo's cash needs.

In January 1984, Southland increased its \$150 million revolving credit agreement to \$200 million and extended the revolving period. The agreement, originally entered into in December 1982, now provides for a four-year revolving period followed by a four-year term loan. This acts as a backup line for Southland's commercial paper, and along with other short-term debt instruments available to Southland and internally generated funds, provides sufficient resources to meet liquidity needs. The Company is actively pursuing methods to fix the interest rate on a portion of both Citgo and Southland variable-rate debt.

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The following financial data provide an indication of Southland's liquidity.

Liquidity Indicators	1983	1982	1981
Working capital (millions)	\$ 582.9	\$113.0	\$165.9
Current ratio	1.58	1.22	1.36
Funds provided from operations (millions)	\$(226.0)	\$169.6	\$225.4
Debt to total capitalization	51.2%	45.3%	46.6%
Interest coverage ratio	3.53	4.87	4.46

The large increases in both working capital and the current ratio were a result of the Citgo acquisition. Citgo's working capital is largely funded with its credit facilities. The decline in the 1982 figures reflected a deployment of surplus cash into fixed assets and the decision to fund working capital needs by use of commercial paper and the revolving credit agreement rather than by a larger debt or equity offering. This funding decision, which provided ready access to cash, minimized interest costs but kept cash and short-term investment balances, a substantial portion of working capital in 1981, at relatively low levels.

Funds provided from operations decreased substantially in 1983 as a result of the increases in net current assets attributable to Citgo; however, Southland, excluding Citgo, provided approximately \$280 million. Funds provided from operations are one measure of a company's ability to provide for its growth in the event that outside capital sources are not available. The Company feels that a substantial portion of its long-term capital needs could be provided by such internally generated funds if necessary.

Debt to total capitalization increased and the interest coverage ratio decreased as a result of the use of debt in the Citgo acquisition. The Company intends to repay this debt over the next few years with cash from Citgo's operations and return these ratios to historic levels.

Capital expenditures for the past three years were:

Capital Expenditures (Millions)	1983	%	1982	%	1981	%
Stores	\$190.7	30.2	\$184.7	54.8	\$150.3	67.1
Gasoline refining and supply	317.3	50.2	15.7	4.7	14.7	6.6
Dairies	13.7	2.2	16.0	4.7	14.2	6.4
Special operations	15.3	2.4	11.1	3.3	11.5	5.1
Corporate	94.4	15.0	109.8	32.5	33.2	14.8
TOTAL	\$631.4	100.0	\$337.3	100.0	\$223.9	100.0

The large increase in gasoline refining and supply represents that portion of the Citgo acquisition cost which was allocated to property, plant and equipment, as well as reimbursement for expenditures made by Cities Service Company after May 15, 1983, and those made after the acquisition. Corporate expenditures declined as the land acquisition program for the Cityplace development neared completion.

During 1984 and 1985, Southland expects capital expenditures to be near 1983 levels for its traditional businesses and significantly lower for gasoline refining and supply. The Company plans to begin construction on a new distribution center in 1984 and also expects to break ground for its new headquarters building which is part of the first phase of Cityplace. The Company closely monitors and controls the level of its capital outlays.

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Southland utilizes both capital and operating leases and considers them to be valuable assets and essential to its operations. Capital lease obligations have fallen during the period, although operating lease rentals have increased substantially. Southland plans to continue using both methods of leasing.

While long-term debt has increased as a result of the Citgo acquisition, Southland's financial structure provides the ability to fund future growth through additional debt, equity or lease financing. The Company does not expect the financing for its new headquarters to impair its ability to fund its operating and expansion needs.

The Company's public unsecured sinking fund debentures are rated "A3" by Moody's, "A-" by Standard and Poor's and "7" by Duff and Phelps. Its commercial paper is rated "P-2," "A-2" and "1-" by those agencies.

DIVIDENDS:

The Company not only has followed a policy of reinvesting a major portion of net earnings to meet its growth objectives, but also has declared cash dividends each of the past 27 years and raised the annual rate 12 times in the past 13 years.

Following a three-for-two common stock split in January 1983, that year's annual dividend rate was increased by 8.6% to 84 cents following increases of 10.5% to 77 cents in 1982 and 12.9% to 70 cents in 1981. In January 1984, the Board of Directors increased the dividend 9.5% from 84 cents to 92 cents, with the new rate effective the first quarterly payment in March 1984.

Dividends Paid Per Common Share			
QUARTERS	1983	1982	1981
First	\$.21	\$.19	\$.18
Second	.21	.19	.18
Third	.21	.19	.18
Fourth	.21	.20	.18
TOTAL	\$.84	\$.77	\$.70

SUPPLEMENTARY INFLATION DATA (Unaudited):

Introduction

Under generally accepted accounting principles, financial statements traditionally have been prepared on the basis of historical cost. Over time, inflation distorts this accounting measurement. Statement of Financial Accounting Standards No. 33 (SFAS No. 33) requires the presentation of supplementary financial information which attempts to show the impact of inflation. Because this information is experimental in nature, two different methods of presentation are required.

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Methods of Measuring the Effects of Inflation

The first method provides information with respect to general inflation (constant dollar) by adjusting historical cost into dollars having the same purchasing power. For example, if the inflation rate is ten percent from one year to the next, then ten percent more dollars are needed in the second year to maintain the same purchasing power. SFAS No. 33 requires adjustment of certain historical financial data to constant dollars by using the Consumer Price Index for all Urban Consumers (CPI-U). Therefore, the historical cost of property, plant and equipment and of capital leases and related depreciation and amortization expense are adjusted using the CPI-U. Also, inventories and the related effect of inventories on cost of goods sold are similarly adjusted.

The second method provides information with respect to changes in specific prices (current cost) by adjusting historical cost to the cost which is currently required to purchase inventories and property, plant and equipment.

Over time, current cost increases at a rate different from the CPI-U. Current cost of property, plant and equipment and of capital leases and related depreciation and amortization expense were determined by application of appropriate published and internally developed indexes. The last-in, first-out (LIFO) method is used to determine the cost of the majority of inventories. Because of the rapid turnover of inventories and the use of LIFO, the cost of goods sold as shown in the historical cost financial statements approximates current cost. Current cost of inventories was estimated using first-in, first-out valuations adjusted for price changes through the end of the year.

Management's Comments

The following schedules compare financial data reported on a historical cost basis with data adjusted both for general inflation and for current cost.

Revenues (in millions of dollars) for 1983 were \$8,805.0 and for 1979, expressed in average 1983 dollars, were \$5,320.3, resulting in an average annual compound real sales growth rate from 1979 to 1983 of 13.3%.

Net earnings determined under the constant dollar and current cost methods are lower than earnings determined under the historical cost method. This decline results principally from the higher depreciation and amortization expense arising from significant inflationary increases in the cost of property, plant and equipment and of capital leases. The impact of inflation on inventories is not significant since reported earnings are based primarily on LIFO, which approximates the results obtained under the constant dollar and current cost methods.

Present tax laws do not allow deductions for depreciation adjusted for the effect of inflation. Therefore, the Company's tax rate based on data adjusted for the impact of inflation can be in excess of the statutory rate. As shown in the following statement of earnings, the effective tax rate rises from 29.0% based on historical cost to 39.7% and 49.5% based on the general inflation and current cost methods.

The reduction in net earnings, discussed above, is partially offset by the unrealized gain from the decline in purchasing power of net amounts owed (monetary liabilities in excess of monetary assets). Since the monetary liabilities at year-end were larger than the monetary assets, a gain is shown. This gain represents the change in the amount of purchasing power required at year-end to pay these net liabilities compared to the higher amount that would have been required to pay them at the end of the preceding year.

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**Supplementary Information — The Impact of General Inflation and Specific Price Changes
on Selected Financial Data** (Dollars in millions)

	Year ended December 31, 1983		
	As reported in financial statements	Adjusted for general inflation (constant dollar)	Adjusted for current cost
Revenues	\$8,805.0	\$8,805.0	\$8,805.0
Cost of sales and expenses:			
Cost of goods sold, exclusive of depreciation and amortization	7,065.8	7,073.0	7,067.9
Depreciation and amortization	145.1	187.9	220.0
Interest expense, including imputed interest expense on capital lease obligations	73.3	73.3	73.3
Other operating expenses	1,335.2	1,335.2	1,335.2
	8,619.4	8,669.4	8,696.4
Earnings before income taxes	185.6	135.6	108.6
Income taxes	53.8	53.8	53.8
Net earnings	\$ 131.8	\$ 81.8	\$ 54.8
Effective tax rate	29.0%	39.7%	49.5%
Unrealized gain from decline in purchasing power of net amounts owed	—	\$ 35.1	\$ 35.1
Increase in current cost of inventories, property, plant and equipment, and capital leases held during the year	—	—	\$ 150.9
Effect of increase in general inflation	—	—	80.9
Excess of increase in current costs over increase in general inflation	—	—	\$ 70.0

The current costs of inventories and property, plant and equipment including capital leases, net of accumulated depreciation and amortization at December 31, 1983, and corresponding historical cost amounts, were as follows (dollars in millions):

	Historical cost	Current cost
Inventories	\$ 954.9	\$1,037.6
Property, plant and equipment including capital leases — net	1,589.9	2,195.5

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Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices (In average 1983 dollars)

(Dollars in millions, except per-share data)

	Year ended December 31				
	1983	1982	1981	1980	1979
Revenues	\$8,805.0	\$7,000.8	\$6,281.2	\$5,782.6	\$5,320.3
Historical cost information adjusted for general inflation:					
Earnings before cumulative effect in 1979 of accounting change for investment tax credits	81.8	66.6	51.6	44.3	60.3
Net earnings	81.8	66.6	51.6	44.3	81.8
Primary earnings per share:					
Before cumulative effect of accounting change	2.02	1.86	1.45	1.25	1.81
Net earnings	2.02	1.86	1.45	1.25	2.45
Net assets at year-end	1,512.8	1,184.4	1,124.8	1,078.7	1,024.1
Current cost information:					
Earnings before cumulative effect in 1979 of accounting change for investment tax credits	54.8	46.8	35.1	27.9	27.7
Net earnings	54.8	46.8	35.1	27.9	49.2
Primary earnings per share:					
Before cumulative effect of accounting change	1.36	1.31	.99	.79	.83
Net earnings	1.36	1.31	.99	.79	1.47
Net assets at year-end	1,741.2	1,340.3	1,334.2	1,290.7	1,272.1
Excess of increase (decrease) in current costs over increase in general inflation	70.0	(38.3)	(8.1)	(53.1)	97.8
Unrealized gain from decline in purchasing power of net amounts owed	35.1	31.0	66.0	98.2	111.3
Cash dividends per common share	.88	.80	.77	.73	.71
Market price per common share at year-end	32 $\frac{1}{2}$	26 $\frac{1}{2}$	22 $\frac{3}{4}$	16	24 $\frac{1}{2}$
Average CPI-U	298.4	289.1	272.4	246.8	217.4

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CONSOLIDATED BALANCE SHEETS

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

ASSETS	December 31	
	(Dollars in thousands)	
	1983	1982
Current assets:		
Cash and short-term investments	\$ 22,120	\$ 34,685
Accounts and notes receivable	476,393	158,217
Inventories	954,916	309,739
Deposits and prepaid expenses	55,257	36,908
Investment in properties	76,200	76,800
Total current assets	1,584,886	616,349
Investments in affiliates	84,280	31,359
Property, plant and equipment	1,437,492	990,925
Capital leases	152,432	168,412
Other assets	50,365	35,209
	\$3,309,455	\$1,842,254
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Commercial paper and notes payable to banks	\$ 26,438	\$ 11,696
Accounts payable and accrued expenses	908,802	420,294
Income taxes	8,913	43,490
Long-term debt due within one year	42,813	12,052
Capital lease obligations due within one year	15,065	15,805
Total current liabilities	1,002,031	503,337
Deferred credits and other liabilities	106,819	52,589
Long-term debt	940,878	386,304
Capital lease obligations	184,765	196,676
Commitments for operating leases		
Shareholders' equity:		
Preferred stock without par value, authorized 5,000,000 shares in 1983, none issued or outstanding	—	—
Common stock, \$.01 par value, authorized 150,000,000 and 40,000,000 shares, issued and outstanding 46,852,348 and 36,106,841 shares	469	361
Additional capital	624,483	347,786
Retained earnings	450,010	355,201
	1,074,962	703,348
	\$3,309,455	\$1,842,254

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF EARNINGS

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	Year ended December 31		
	(Dollars in thousands, except per-share data)		
	1983	1982	1981
Revenues:			
Net sales	\$8,772,067	\$6,756,933	\$5,693,636
Other income	32,943	25,450	40,524
	8,805,010	6,782,383	5,734,160
Cost of sales and expenses:			
Cost of goods sold	7,177,147	5,350,453	4,454,774
Selling, general and administrative expenses	1,349,574	1,174,886	1,050,073
Interest expense	52,636	27,390	24,539
Imputed interest expense on capital lease obligations	20,638	21,345	23,048
Contributions to Employees' Savings and Profit Sharing Plan	19,426	19,568	16,965
	8,619,421	6,593,642	5,569,399
Earnings before income taxes	185,589	188,741	164,761
Income taxes	53,821	80,690	71,901
Net earnings	\$ 131,768	\$ 108,051	\$ 92,860
Net earnings per share:			
Primary	\$3.26	\$3.02	\$2.61
Fully diluted	\$3.21	\$2.94	\$2.54

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	Year ended December 31		
	(Dollars in thousands)		
	1983	1982	1981
Internally generated funds:			
Net earnings	\$ 131,768	\$ 108,051	\$ 92,860
Expenses not requiring the use of cash or short-term investments:			
Depreciation and amortization	127,800	102,964	79,944
Amortization of capital leases	17,305	18,737	20,887
Deferred income taxes	15,722	(1,459)	13,518
Equity in (earnings) loss of affiliates in excess of dividends received	(471)	(603)	82
	292,124	227,690	207,291
Increase in accounts payable and accrued expenses	459,959	4,173	85,828
Increase in deposits and prepaid expenses	(9,909)	(1,033)	(2,588)
Increase in inventories	(179,498)	(77,043)	(19,251)
Increase in accounts and notes receivable	(287,441)	(9,523)	(48,866)
Increase (decrease) in income taxes	(34,577)	22,396	(1,274)
Increase in deferred credits and other liabilities	10,725	2,931	4,255
Increase in net current assets from acquisition of Citgo	(477,339)	—	—
Funds (used in) provided from operations	(225,956)	169,591	225,395
Funds used to pay dividends	(35,329)	(27,657)	(24,859)
Net change in accumulated foreign currency translation adjustment	(1,206)	(1,633)	(2,046)
Net internally generated funds (used) available for investment	(262,491)	140,301	198,490
Capital investment activities:			
Acquisitions:			
Property, plant and equipment	(325,914)	(321,506)	(206,864)
Net noncurrent assets from acquisition of Citgo	(297,416)	—	—
Net noncurrent assets of other businesses acquired	(8,053)	(15,782)	(17,027)
Capital leases	(10,239)	(3,861)	(9,446)
Investment in properties	600	(7,200)	8,300
Investments in affiliates	(592)	1,402	1,691
Other	(8,933)	(1,802)	(1,548)
	(650,547)	(348,749)	(224,894)
Retirements:			
Property, plant and equipment	29,252	17,619	15,899
Capital leases	8,914	5,925	6,752
	38,166	23,544	22,651
Net funds used by capital investment activities	(612,381)	(325,205)	(202,243)
Financing activities:			
Financing acquired:			
Commercial paper and notes payable to banks	14,742	85,696	—
Long-term debt	254,512	23,689	19,697
Long-term debt from acquisition of Citgo	521,000	—	—
Capital lease obligations	10,239	3,861	9,446
Common stock (principally the acquisition of Citgo)	276,381	12,366	984
	1,076,874	125,612	30,127
Financing discharged:			
Long-term debt	(191,677)	(26,420)	(9,427)
Capital lease obligations	(22,890)	(21,373)	(24,779)
	(214,567)	(47,793)	(34,206)
Net funds provided by (used in) financing activities	862,307	77,819	(4,079)
Decrease in cash and short-term investments	\$ (12,565)	\$ (107,085)	\$ (7,832)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	Year ended December 31		
	1983	(Dollars in thousands) 1982	1981
Common stock:			
Balance, beginning of year	\$ 361	\$ 237	\$ 236
Acquisition of businesses	100	—	—
Conversion of debt	3	3	*
Stock options and incentives	1	1	1
Three-for-two stock split	4	120	—
Balance, end of year	469	361	237
Additional capital:			
Balance, beginning of year	347,786	335,294	334,311
Acquisition of businesses	267,036	—	—
Conversion of debt	7,636	10,856	73
Stock options and incentives	2,029	1,756	910
Three-for-two stock split	(4)	(120)	—
Balance, end of year	624,483	347,786	335,294
Retained earnings:			
Balance, beginning of year	355,201	276,690	210,735
Net earnings	131,768	108,051	92,860
Cash dividends	(35,329)	(27,657)	(24,859)
Stock options	(424)	(250)	—
Foreign currency translation adjustment	(1,206)	(1,633)	(2,046)
Balance, end of year	450,010	355,201	276,690
Total shareholders' equity	\$1,074,962	\$703,348	\$612,221

*Amount rounds to zero

See notes to consolidated financial statements.

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THE SOUTHLAND CORPORATION AND SUBSIDIARIES

1. Accounting Policies:

Principles of Consolidation

The financial statements include the accounts of domestic and Canadian subsidiaries, all of which are wholly owned. Intercompany transactions are eliminated.

Investments in affiliates are accounted for by the equity method. Accordingly, such investments are shown at cost to the Company plus equity in undistributed earnings since acquisition. Investments in affiliates consist primarily of amounts invested in a wholly owned United Kingdom subsidiary engaged in the operation of retail stores and of 6.8% to 50% equity interests in pipeline companies. Equity in earnings of affiliates is included in other income and is recorded net of amortization of the intangibles which arose on the acquisition (straight-line over 40 years), and, as to foreign affiliates, net of foreign income taxes and a provision for United States federal income taxes. At December 31, 1983, the Company's equity in undistributed earnings of affiliates since date of investment was \$7,281,000, and its investments in affiliates exceeded its equity in the underlying net assets by \$52,301,000.

Basis of Presentation

As a result of the inclusion of Citgo Petroleum Corporation (Citgo) (see Note 2) in the Company's consolidated financial statements, gasoline exchange receivables and payables have been reclassified as inventory, and certain current liabilities have been reclassified as deferred credits and other liabilities as of December 31, 1982, to conform to the classifications used at December 31, 1983.

Effective January 31, 1983, all shares outstanding were split on a three-for-two basis. All references to per-share amounts, stock options, conversion ratios and shares reserved reflect the stock split.

Revenues

Net sales are comprised of sales of products and merchandise, including sales by stores operated by franchisees of \$1,769,970,000, \$1,531,617,000 and \$1,369,660,000 for the years ended December 31, 1983, 1982 and 1981. There is no significant difference in the profitability of company-operated and franchisee-operated stores.

Sales by stores operated under domestic and foreign area license agreements are not included. All fees or royalties arising from such agreements are included in other income. Initial fees, which have been immaterial, are recognized when the services required under the agreements are performed.

Citgo engages in crude oil trading to facilitate the receipt of crude oil at its refinery. Only the net result of such trading is recorded in the accounts.

Other income is primarily comprised of area license royalties, interest on cash investments and equity earnings of pipeline companies and affiliates.

Cost of Goods Sold

Cost of goods sold includes, for the stores segment, buying and occupancy expenses.

Inventories

Inventories are stated at the lower of cost or market, which, as to merchandise in stores, is determined by the retail inventory method. Cost is determined using the last-in, first-out (LIFO) method for substantially all inventories of the stores segment (which includes gasoline) and for refined products of the gasoline refining and supply segment, and the first-in, first-out (FIFO) method for all other inventories.

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Investment in Properties

Investment in properties includes land, buildings and equipment either to be sold for cash and leased back or to be mortgaged, as well as closed stores held for sale. The Company expects that cash will be realized for these properties within a twelve-month period. Working capital is used in the acquisition, construction and carrying of these assets.

Depreciation and Amortization

Depreciation of plant and equipment and amortization of capital leases are based upon the estimated useful lives of these assets using the straight-line method. Amortization of improvements to leased properties is based upon the remaining terms of the leases or the estimated useful lives of such improvements, whichever is shorter.

Excise Taxes

Excise taxes of \$259,947,000, \$144,815,000 and \$118,267,000 collected from customers on retail gasoline sales are included in net sales and cost of goods sold for the years ended December 31, 1983, 1982 and 1981.

Income Taxes and Investment Tax Credits

Income taxes is the estimated amount of federal and state income taxes on earnings reported in the consolidated statements of earnings. Deferred taxes and deferred tax benefits are provided for and are a result of timing differences between financial and tax reporting.

Investment tax credits are recorded as a reduction of income taxes in the year the related assets are placed in service.

Leases

Capital leases are recorded at the lower of the discounted present value of future lease payments or the fair value of the property. Provision is made for the present value of anticipated rentals on closed stores, net of expected sublease rentals.

2. Acquisition of Citgo:

On August 31, 1983, the Company acquired the refining, marketing and transportation businesses of Cities Service Company (Cities), a wholly owned subsidiary of Occidental Petroleum Corporation, through the acquisition of Citgo, a wholly owned subsidiary of Cities, for 9.35 million new shares of common stock, equivalent to 20% of the Company's outstanding shares after the consummation of the acquisition. The common stock was valued at \$27.63 per share, the closing price at the date of the letter of intent. The Company, through its Citgo loan facilities (see Note 8), also paid approximately \$519 million in cash based on the value of certain of Citgo's crude oil, refined products and other inventories, various receivables and construction expenditures since mid-May related to ongoing capital projects at the Lake Charles refinery. The acquisition was accounted for by the purchase method and, accordingly, operations of Citgo are included in the consolidated financial statements from the date of acquisition. The acquisition cost was first allocated to the net current assets of Citgo, with the balance of the cost allocated proportionately, based on estimated fair values, to property, plant and equipment and equity interests in pipeline companies.

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The following table summarizes, on an unaudited pro forma basis, the estimated combined results of operations of the Company and Citgo for the years ended December 31, 1983 and 1982, as though the acquisition were made at the beginning of 1982. This pro forma information does not purport to be indicative of the results of operations which would have actually been obtained if the acquisition had been effective on the dates indicated. In addition, this pro forma financial information does not purport to be, and in the opinion of the Company is not, indicative of results of operations which may be obtained in the future. This opinion is based, in part, upon the fact that the pro forma information, because it is historical, does not take into consideration the manner in which the Company intends to operate Citgo's refinery, changing market conditions or the capabilities the refinery is expected to have upon completion of certain capital projects.

	Year ended December 31	
	(in millions of dollars, except per-share data)	
	1983	1982
Net sales	\$11,483	\$10,753
Net earnings	94	101
Net earnings per share:		
Primary	2.01	2.23
Fully diluted	1.99	2.19

3. Cash and Short-Term Investments:

Cash and short-term investments include temporary cash investments of \$76,709,000 and \$92,446,000 at December 31, 1983 and 1982, stated at cost, which approximates market.

4. Accounts and Notes Receivable:

	December 31	
(000's omitted)	1983	1982
Trade accounts and notes receivable	\$444,801	\$115,703
Franchisee accounts receivable	42,014	49,353
	486,815	165,056
Allowance for doubtful accounts	(10,422)	(6,839)
	\$476,393	\$158,217

5. Inventories:

	December 31	
(000's omitted)	1983	1982
Retail and finished goods	\$316,880	\$292,956
Refined product (excluding product at stores)	411,586	—
Crude oil	151,972	—
Other	74,478	16,783
	\$954,916	\$309,739

At December 31, 1983 and 1982, inventories stated on the LIFO basis (for financial statement purposes) were approximately \$657,862,000 and \$205,628,000, which is less than replacement cost by approximately \$83,080,000 and \$64,045,000.

As a result of the carryover of historical tax basis for Citgo refined product inventories acquired at August 31, 1983, the book LIFO basis of these inventories exceeds the tax LIFO basis by \$232 million. The Company expects the levels of refined product inventories required for normal operations always to exceed the amounts acquired on August 31, 1983, and included in the book LIFO basis.

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6. Property, Plant and Equipment:

(000's omitted)	December 31	
	1983	1982
Cost:		
Land	\$ 206,861	\$ 146,160
Buildings and leaseholds	609,223	520,833
Machinery and equipment	784,392	539,174
Vehicles	101,113	76,243
Construction in process	121,956	31,598
Corporate property held for development	110,851	80,662
	1,934,396	1,394,670
Accumulated depreciation and amortization	(496,904)	(403,745)
	\$1,437,492	\$ 990,925

Interest incurred to finance the construction or development of properties, which has been added to the cost of the related assets, was \$5,557,000 in 1983, \$3,075,000 in 1982 and \$2,961,000 in 1981.

7. Accounts Payable and Accrued Expenses:

(000's omitted)	December 31	
	1983	1982
Trade accounts payable	\$637,676	\$251,555
Accrued payroll	75,375	55,890
Accrued taxes	49,298	37,206
Other accounts payable and accrued expenses	146,453	75,643
	\$908,802	\$420,294

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8. Debt:

	December 31, 1983		
(000's omitted)	Amount outstanding	Due within one year	Balance included in long- term debt
Citgo term and revolving loans	\$600,000	\$30,000	\$570,000
Commercial paper and notes payable to banks	74,000	—	74,000
5¾%-14% real estate, equipment and other notes (mature 1984 to 2011)	132,263	11,083	121,180
5% convertible subordinated debentures due 1987	11,426	—	11,426
8¾% sinking fund debentures due 2002	46,730	1,730	45,000
9¾% sinking fund debentures due 2003	47,289	—	47,289
9½% sinking fund debentures due 2004	71,983	—	71,983
	\$983,691	\$42,813	\$940,878

Property, plant and equipment with a carrying value of approximately \$109 million at December 31, 1983, was mortgaged, exclusive of the pledged Citgo assets discussed below. Lenders to certain wholly owned real estate subsidiaries hold pledges of the shares of those subsidiaries as additional collateral.

The 5% convertible debentures may, at the option of the holders, be converted at any time prior to maturity into the Company's common stock. The present conversion ratio is 45.19 shares for each \$1,000 of principal. At December 31, 1983, there were 516,340 shares reserved for the conversion of these debentures.

The 8¾% debentures require annual sinking fund payments in the amount of \$2,500,000, which, at the option of the Company, may be increased each year by an additional amount not exceeding \$2,500,000. The Company has satisfied \$770,000 of the 1984 sinking fund requirement through purchases on the open market.

The 9¾% debentures require annual sinking fund payments beginning December 15, 1984, in the amount of \$2,500,000, which, at the option of the Company, may be increased each year by an additional amount not exceeding \$2,500,000. The Company has satisfied the 1984 sinking fund requirement through purchases on the open market.

The 9½% debentures require annual sinking fund payments beginning August 15, 1985, in the amount of \$3,750,000, which, at the option of the Company, may be increased each year by an additional amount not exceeding \$5,625,000.

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In order to provide cash for working capital and capital expenditure requirements, Citgo obtained, from a syndicate of commercial banks, a term loan facility of up to \$300 million and a revolving loan facility of up to the lesser of \$750 million or a borrowing base calculated on the basis of certain inventories and accounts receivable, subject to an overall \$900 million maximum for the combined loan facilities. Interest is calculated on rate options based upon the certificate of deposit loan rate, Eurodollar loan rate (both of which generally are less than the prime interest rate) or the prime rate. The loan facilities provide for a commitment fee on unadvanced funds of $\frac{3}{4}\%$ per annum. No compensating balances are required. The term loan is payable in 10 equal annual installments beginning August 31, 1984, with mandatory prepayments which are a percentage of Citgo's yearly income (50% up to \$100 million, and 25% thereafter). The revolving loan is payable in full on August 31, 1988. At December 31, 1983, \$300 million was outstanding under each of the term loan and revolving loan facilities with an average interest rate of 10.9%. The refinery assets, accounts receivable, inventories, interests in pipeline companies and other Citgo assets with a carrying value of approximately \$1.2 billion, as well as all of the outstanding stock of Citgo, are pledged as collateral under these agreements.

The Company has a revolving credit agreement with a syndicate of commercial banks providing for a line of credit of \$200 million through December 1, 1986, with interest rate options based upon the certificate of deposit loan rate, Eurodollar loan rate (both of which generally are less than the prime interest rate) or the prime rate. The agreement provides for a commitment fee on unadvanced funds of $\frac{3}{4}\%$ per annum. No compensating balances are required. The agreement provides for 16 equal quarterly payments of principal plus accrued interest, beginning December 31, 1986. At December 31, 1983, no loans are outstanding under this agreement.

Commercial paper and notes payable to banks of \$74 million have been classified as long-term debt because the Company intends to maintain at least this amount of such debt for a minimum of one year or intends to refinance the debt on a long-term basis and has the availability of such refinancing because of the existence of the line of credit. The Company intends such a refinancing when market conditions become advantageous. The average interest rate on commercial paper and notes payable to banks outstanding at December 31, 1983, is 9.87%, which is less than the interest rates available at that date under the revolving credit agreement.

As of December 31, 1983, long-term debt scheduled maturities are as follows (000's omitted):

1984	\$ 42,813
1985	44,851
1986	51,906
1987	107,937
1988	366,162
Thereafter	370,022
	<u>\$983,691</u>

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9. Stock Options, Key Employees Incentive Plan and Preferred Stock:

The Employees' Stock Option Plan (the Plan), adopted in 1977 and amended in 1983, provides for the granting of options to key employees and officers of the Company. The options are generally granted at the fair market value of the shares on the date of grant.

Options granted under Part A of the Plan expire ten years from date of grant and are exercisable ratably over that period on a cumulative basis. Options granted under Part B of the Plan expire at least two years, and not more than ten years, from date of grant and are exercisable ratably over the period specified in the option on a cumulative basis.

Options granted under Part C of the Plan qualify as incentive stock options under Section 422A of the Internal Revenue Code. These options will expire at least two years, and not more than ten years, from date of grant and are exercisable ratably in the sequence granted over the period specified in the option.

Options granted under Parts A and B of the Plan may include the right of the optionholder to receive, upon exercise of an option, a cash payment equal to the difference between the purchase price and the market price on the date of exercise. All applicable options granted under the Plan, through December 31, 1983, include such a right.

At December 31, 1983, there were options for 795,202 shares outstanding at \$12.73 to \$36.63 per share, of which 127,687 were exercisable. During the year ended December 31, 1983, options for 67,834 shares were exercised at \$12.73 to \$18.25 per share. At December 31, 1983, 4,905,307 shares were authorized for future issuance under the Plan.

At December 31, 1983, 178,492 shares were authorized for issuance pursuant to a key employees incentive plan. No shares will be issued in 1984. In 1983, 1982 and 1981, 28,344, 73,390 and 37,240 shares were issued under this plan.

No preferred stock has been issued. If issued, the preferred stock will have such rights, powers and preferences as shall from time to time be fixed by the Company's Board of Directors.

10. Employees' Savings and Profit Sharing Plan:

Effective January 1, 1949, the Company adopted The Southland Corporation Employees' Savings and Profit Sharing Plan (Profit Sharing) for the purpose of providing retirement benefits for eligible employees.

Contributions to Profit Sharing are made by both the participants and the Company. The Company contributes approximately 10% of its net earnings before contribution to the plan and federal income taxes. The Company contribution is allocated to the participants on the basis of their contribution, years of participation and age.

11. Employee Stock Ownership Plan:

Effective January 1, 1983, the Company adopted the Southland Employee Stock Ownership Plan (the ESOP) for eligible employees. Contributions to the ESOP, which totaled \$2,295,000 for 1983, can be made by the Company in either cash or shares of common stock and are limited to a percentage (for 1983, .5%) of the aggregate compensation of the participants. The Company contribution is allocated to the participants on an equal basis and results in a federal tax credit of equal amount.

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12. Citgo Benefit Plans:

Citgo had pension and other benefit plans which covered substantially all of its employees. Accrued benefits of all former salaried employees of Cities who were employees of Citgo became fully vested at December 31, 1983. On that date the plans for the salaried employees were terminated and those employees became eligible to participate in Profit Sharing. Citgo has continued a pension plan and a thrift plan for its hourly employees.

Citgo contributions to the thrift plan are subject to sufficient accumulated taxable earnings and profits, and are based on employee contributions and years of service.

Citgo contributed \$2,460,000 to the benefit plans for its hourly and salaried employees for the four months ended December 31, 1983.

A comparison of accumulated benefits and net assets for the hourly employees pension plan follows:

(000's omitted)	September 1, 1983
Actuarial present value of accumulated benefits:	
Vested	\$13,952
Nonvested	2,140
	\$16,092
Net assets available for benefits	\$32,500

The weighted average assumed rate of return used in determining the actuarial present value of accumulated benefits was 8%.

13. Leases:

Certain of the property, plant and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms of from 14 to 20 years with options to renew for additional periods, and equipment leases are for terms of from 5 to 10 years. The leases do not contain restrictions which have a material effect on the Company's operations.

The composition of capital leases reflected as assets in the consolidated balance sheets is as follows:

	December 31	
(000's omitted)	1983	1982
Buildings	\$266,798	\$269,359
Equipment	66,492	72,606
	333,290	341,965
Accumulated amortization	(180,858)	(173,553)
	\$152,432	\$168,412

The present value of future minimum lease payments for capital lease obligations is reflected in the consolidated balance sheets as current and noncurrent capital lease obligations. The amount representing imputed interest necessary to reduce net minimum lease payments to present value has been calculated generally at the Company's incremental borrowing rate at the inception of each lease.

Future minimum lease payments for years ending December 31 are as follows:

(000's omitted)	Capital leases	Operating leases
1984	\$ 34,965	\$ 75,244
1985	33,008	72,943
1986	30,388	69,266
1987	28,484	65,536
1988	27,509	61,613
1989 and thereafter	229,941	514,972
	384,295	\$859,574
Estimated executory costs	(7,913)	
Amount representing imputed interest	(176,552)	
Present value of future minimum lease payments	\$199,830	

Rent expense on operating leases in the years ended December 31, 1983, 1982 and 1981, totaled \$79,114,000, \$67,057,000 and \$57,252,000.

Leases With Profit Sharing

During 1983, 1982 and 1981, Profit Sharing purchased 129, 130 and 108 7-Eleven or Chief Auto Parts stores from the Company for \$41,372,000, \$40,660,000 and \$28,268,000, which include the Company's direct and indirect costs. The stores were simultaneously leased to the Company at annual rentals approximating market rates. At December 31, 1983, Profit Sharing owned 899 stores leased to the Company under capital leases (net unamortized amount of \$42,152,000) and 587 stores leased to the Company under operating leases.

14. Income Taxes:

Provisions for income taxes for the years ended December 31 are as follows:

(000's omitted)	1983	1982	1981
Currently payable:			
Federal	\$27,175	\$70,496	\$45,531
Canadian	2,700	3,220	3,662
State	8,224	8,433	9,190
	38,099	82,149	58,383
Deferred	15,722	(1,459)	13,518
	\$53,821	\$80,690	\$71,901

Reconciliations of the Company's effective tax rate and the federal statutory rate for the years ended December 31 are as follows:

	1983	1982	1981
Federal statutory rate	46.0%	46.0%	46.0%
Investment tax credits	(11.9)	(4.7)	(4.5)
State income taxes net of federal income tax benefit	2.4	2.4	2.6
Depreciation	(4.5)	—	—
Other	(3.0)	(.9)	(.5)
	29.0%	42.8%	43.6%

The provisions for deferred income taxes for the years ended December 31 are as follows:

(000's omitted)	1983	1982	1981
Use of accelerated depreciation for tax purposes	\$ 9,849	\$ 4,688	\$ 8,532
Other	5,873	(6,147)	4,986
	\$15,722	\$(1,459)	\$13,518

Deferred federal income taxes of \$33,787,000 and \$20,099,000 at December 31, 1983 and 1982, are included in deferred credits and other liabilities. Net deferred tax benefits of \$5,569,000 and \$7,603,000 at December 31, 1983 and 1982, are included in deposits and prepaid expenses.

15. Earnings Per Share:

Primary earnings per share are based on the average number of shares outstanding during each year after giving effect to the January 31, 1983, three-for-two stock split.

Earnings per share assuming full dilution are based on (a) shares used in computing primary earnings per share, (b) shares issuable upon conversion of convertible debentures at the stated conversion rates (related interest requirements eliminated), (c) shares issuable on the exercise of stock options after reduction for shares assumed to have been purchased with the proceeds and (d) average shares issuable under the key employees incentive plan.

16. Quarterly Financial Data (Unaudited):

Summarized quarterly financial data is as follows (000's omitted, except per-share data):

	First quarter	Second quarter	Third quarter	Fourth quarter	Year
Net sales:					
1983	\$1,705,068	\$1,930,885	\$2,430,320	\$2,705,794	\$8,772,067
1982	1,532,306	1,725,926	1,790,825	1,707,876	6,756,933
1981	1,226,839	1,438,975	1,515,061	1,512,761	5,693,636
Gross profit:					
1983	318,095	402,489	472,709	401,627	1,594,920
1982	296,398	370,381	391,163	348,538	1,406,480
1981	255,957	329,920	340,641	312,344	1,238,862
Net earnings:					
1983	7,720	33,956	60,074	30,018	131,768
1982	9,515	35,169	36,833	26,534	108,051
1981	7,408	31,255	31,581	22,616	92,860
Primary net earnings per share:					
1983	.21	.91	1.48	.64	3.26
1982	.27	.99	1.03	.73	3.02
1981	.21	.88	.89	.63	2.61
Fully diluted net earnings per share:					
1983	.21	.89	1.46	.63	3.21
1982	.26	.96	1.00	.72	2.94
1981	.21	.85	.86	.62	2.54

The results of operations for 1983 include Citgo from August 31.

The estimated effective tax rate for the third quarter was 26%, which reflects a reduction in the previous estimate primarily as a result of tax benefits arising from Citgo. The effective tax rate for the fourth quarter was 11%, which adjusts income tax expense to the actual annual effective tax rate of 29%.

17. Segment Information:

The stores segment includes all convenience and grocery stores and retail gasoline outlets in the United States and Canada, as well as those activities (such as distribution and food preparation) which derive the majority of their revenues and operating profits from support of these stores. The gasoline refining and supply segment includes the Citgo refinery, interests in pipeline companies (except equity in their earnings, which is shown separately) and related wholesale, marketing and transportation facilities, as well as the Gasoline Supply Division which constituted the entirety of the segment through August 31, 1983, the date of the acquisition of Citgo.

The dairies segment includes milk and ice cream processing and distribution. The special operations segment includes the ice, chemical, Tidel Systems and Chief Auto Parts divisions. Interest expense is not allocated to segments. Corporate items reflect income, expenses and assets not allocable to segments.

Intersegment sales are accounted for on a cost-plus-markup basis. Expenses directly identifiable with a segment and certain allocated income and expenses are used to determine operating profit by segment.

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Segment information is as follows (000's omitted):

	1983	1982	1981
Revenues:			
Stores	\$6,693,417	\$5,721,099	\$5,144,087
Gasoline refining and supply	2,871,339	1,259,493	103,754
Dairies	601,564	584,422	568,560
Special operations	204,017	165,154	140,904
Corporate	11,478	9,031	7,725
	10,381,815	7,739,199	5,965,030
Intersegment revenues:			
Gasoline refining and supply	(1,305,811)	(713,238)	(18,472)
Dairies	(254,968)	(229,833)	(198,329)
Special operations	(16,026)	(13,745)	(14,069)
Consolidated revenues	\$8,805,010	\$6,782,383	\$5,734,160
Operating profits:			
Stores	\$ 236,757	\$ 224,916	\$ 219,887
Gasoline refining and supply	22,731	23,009	2,994
Dairies	16,998	12,457	13,333
Special operations	1,403	(3,137)	(9,503)
Consolidated operating profits	277,889	257,245	226,711
Equity in earnings of pipeline companies	7,446	—	—
Interest expense	(73,274)	(48,735)	(47,587)
Corporate expense — net	(26,472)	(19,769)	(14,363)
Consolidated earnings before income taxes	\$ 185,589	\$ 188,741	\$ 164,761
Identifiable assets (including capital leases) at December 31:			
Stores	\$1,412,029	\$1,253,280	\$1,216,037
Gasoline refining and supply	1,390,419	139,676	89,472
Dairies	118,778	114,799	120,313
Special operations	111,903	97,122	96,463
Corporate	276,326	237,377	132,313
Total identifiable assets	\$3,309,455	\$1,842,254	\$1,654,598
Capital expenditures (excluding capital leases):			
Stores	\$ 190,682	\$ 184,677	\$ 150,301
Gasoline refining and supply	317,350	15,681	14,700
Dairies	13,686	15,966	14,213
Special operations	15,256	11,164	11,462
Corporate	94,409	109,800	33,215
Total capital expenditures	\$ 631,383	\$ 337,288	\$ 223,891
Depreciation and amortization expense:			
Stores	\$ 114,822	\$ 99,200	\$ 85,009
Gasoline refining and supply	7,282	3,571	203
Dairies	8,966	8,648	7,930
Special operations	6,487	5,327	4,538
Corporate	7,548	4,955	3,151
Total depreciation and amortization expense	\$ 145,105	\$ 121,701	\$ 100,831

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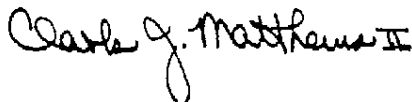
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of The Southland Corporation and subsidiaries, as well as other financial information contained in this report, were prepared by management, which is responsible for their integrity and objectivity.

The Company's financial position and results of operations are presented in conformity with generally accepted accounting principles and, where appropriate, reflect estimates based on judgments of management. The Company has designed and implemented accounting and reporting systems and controls to provide reasonable assurance that transactions are accurately reflected on the books and records, assets are protected, established policies and procedures are followed, and the Company's financial position and results of operations are presented fairly. Accounting and reporting controls are monitored through an extensive program of internal audits by a professional staff of Company auditors which coordinates its activities with the Company's independent certified public accountants.

Touche Ross & Co. is engaged to examine the consolidated financial statements and issue their report thereon. Their examination is conducted in accordance with generally accepted auditing standards, including a review of internal controls and such tests of the accounting records as they consider necessary.

The Board of Directors, assisted by its Audit Committee of four non-employee directors, is responsible for assuring that management fulfills its responsibilities in the preparation of the financial statements and for recommending to shareholders the engagement of the independent certified public accountants, with whom the Committee reviews the scope of the audit and the accounting principles to be applied in financial reporting. The Committee meets as necessary, but at least three times a year. Touche Ross & Co. and the Company's internal auditors have direct access to the Committee — with or without the presence of management — to discuss any appropriate matter.



Clark J. Matthews, II
Senior Executive Vice President
and Chief Financial Officer

TOUCHE ROSS & CO.

2001 Bryan Tower, Suite 2400
Dallas, Texas

Board of Directors and Shareholders
The Southland Corporation
Dallas, Texas

We have examined the consolidated balance sheets of The Southland Corporation and subsidiaries as of December 31, 1983 and 1982, and the related consolidated statements of earnings, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Southland Corporation and subsidiaries at December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.



Certified Public Accountants

February 24, 1984

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BOARD OF DIRECTORS



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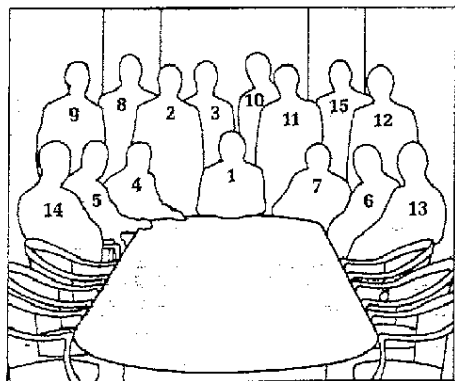
1. John P. Thompson (1948)
Chairman of the Board and
Chief Executive Officer
2. Jere W. Thompson (1961)
President
3. William W. Atwell^{1,2,3} (1976)
Investments
4. J. Y. Ballard (1937)
Investments
5. Frank L. Carney (1982)
Owner,
Carney Enterprises
6. Walton Grayson, III (1962)
Executive Vice President
7. Dr. Armand Hammer (1983)
Chairman and
Chief Executive Officer,
Occidental Petroleum Corporation
8. Joseph S. Hardin (1977)
Retired Executive Vice President;
President, Hargoro, Inc.
9. Mark L. Lemmon, M.D.^{1,2} (1977)
Plastic and Reconstructive
Surgeon
10. Leo E. Linbeck, Jr.^{1,3} (1982)
Chairman and
Chief Executive Officer,
Linbeck Construction Corporation
11. Clark J. Matthews, II (1981)
Senior Executive Vice President
and Chief Financial Officer
12. Walter M. Mischer, Jr.³ (1982)
President,
The Mischer Corporation
13. Alan C. Schoellkopf^{1,2} (1979)
Vice President,
Rotan Mosle Inc.
14. Jodie C. Thompson, Jr. (1979)
Senior Executive Vice President
15. Clifford W. Wheeler (1960)
Retired Vice President

(Date indicates year elected)

¹Members of the Audit Committee

²Members of the Nominating Committee

³Members of the Compensation
and Benefits Committee



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SENIOR OFFICERS

John P. Thompson 58
Chairman of the Board and
Chief Executive Officer

Jere W. Thompson 51
President

Clark J. Matthews, II 47
Senior Executive
Vice President and
Chief Financial Officer

Jodie C. Thompson, Jr. 43
Senior Executive
Vice President, Retail

Walton Grayson, III 55
Executive Vice President,
Administration and Services



James W. Parker 45
Executive Vice President,
Manufacturing and
Distribution



S. R. Dole 46
Senior Vice President,
Stores

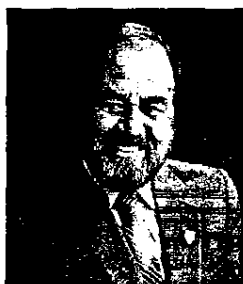


Bruce W. Krysiak 33
Senior Vice President,
Marketing - Retail



Sam J. Susser 44
Senior Vice President,
Petroleum Products, and
President, Citgo
Petroleum Corporation

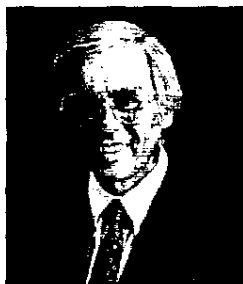
OPERATING OFFICERS



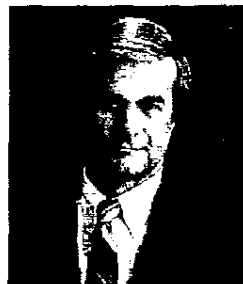
C. O. Beshears 57
Vice President,
Dairies



Donald L. Burnside 48
Vice President,
Western Stores Region



Adrian O. Evans 47
Vice President,
Central Stores Region



Joseph S. Hardin, Jr. 38
Vice President,
Distribution



Frank L. Kitchen 47
Vice President,
Eastern Stores Region



James R. Lynch 46
Vice President,
Southeastern Stores Region



Hugh G. Robinson 51
Vice President, and
President, Cityplace
Development Corporation



Richard A. Turchi 49
Vice President,
International



Bill M. Wootton 45
Vice President,
Southwestern Stores Region

STAFF OFFICERS



Rulon R. Brough 60
Vice President,
Management Information
Services



M. T. Cochran, Jr. 65
Vice President,
Special Properties



Frank J. Gangi 42
Vice President
and Treasurer



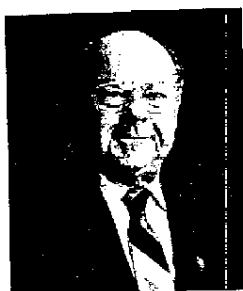
Vaughn R. Heady 63
Vice President



Ben M. Holland 51
Vice President,
Development



Allen Liles 46
Vice President,
Public Relations



P. Eugene Pender 52
Vice President
and Controller



L. Mark Rigg 50
Vice President,
Human Resources



John H. Rodgers 39
Vice President
and General Counsel



Henry T. Stanley, Jr. 47
Vice President,
Investor Relations



Forrest Stout 65
Vice President



R G Smith 60
Secretary

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SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS:

The Southland Corporation
P.O. Box 719, Dallas, Texas 75221
(214) 828-7011 (also see numbers below)

FOR INFORMATION CONCERNING:

SHAREHOLDER SERVICES (shareholder account, dividend reinvestment or other shareholder services) – write the Corporate Secretary at the above address, or phone (214) 828-7300.

INVESTOR RELATIONS (financial/investment data, business performance and general information about The Southland Corporation) – write the Investor Relations Department at the above address, or phone (214) 828-7217.

ANNUAL MEETING:

The Annual Meeting of the Company will be held at 10 a.m. Wednesday, May 9, 1984, in the North Wing Auditorium of the Corporate Office, 2828 North Haskell Avenue, Dallas, Texas. All shareholders are cordially invited to attend.

SECURITIES LISTED:

New York Stock Exchange (SLC):
Common Stock
8 $\frac{3}{4}$ % Sinking Fund Debentures
9 $\frac{3}{4}$ % Sinking Fund Debentures
9 $\frac{1}{2}$ % Sinking Fund Debentures

Luxembourg Stock Exchange:
5% Convertible Subordinated Debentures
(convertible through Transfer Agent)

TRANSFER AGENT AND REGISTRAR:

Common Stock
8 $\frac{3}{4}$ % Sinking Fund Debentures
9 $\frac{3}{4}$ % Sinking Fund Debentures
9 $\frac{1}{2}$ % Sinking Fund Debentures

Mercantile National Bank at Dallas
P.O. Box 225415
Dallas, TX 75265
Dallas: 698-5681
Texas: (800) 492-9734
Outside Texas: (800) 527-7844

DIVIDEND REINVESTMENT PLAN:

This plan provides a simple, convenient and inexpensive way for shareholders to invest cash dividends and additional cash deposits in Southland stock. For further information, please write the Corporate Secretary at the Corporate Headquarters address.

MARKET DATA:

Southland's common stock is traded under the symbol SLC on the New York, Pacific, Boston and Philadelphia Stock Exchanges. The following price/earnings ratios are based upon primary earnings per share for the four preceding quarters.

QUARTERS	Price Range		Price/Earnings Ratios	
	High	Low	High	Low
1983				
First	31 $\frac{3}{4}$	25 $\frac{1}{8}$	10.5	8.3
Second	48 $\frac{1}{4}$	29 $\frac{7}{8}$	16.3	10.1
Third	46	38 $\frac{1}{2}$	16.0	13.4
Fourth	44 $\frac{3}{4}$	29 $\frac{1}{2}$	13.4	8.9
1982				
First	21	17	8.0	6.5
Second	22 $\frac{3}{4}$	19 $\frac{3}{8}$	8.5	7.3
Third	26 $\frac{3}{8}$	20 $\frac{3}{8}$	9.5	7.3
Fourth	31 $\frac{1}{2}$	24 $\frac{3}{8}$	10.8	8.4
1981				
First	18 $\frac{7}{8}$	13 $\frac{5}{8}$	8.7	6.3
Second	18 $\frac{1}{4}$	16 $\frac{1}{4}$	8.3	7.3
Third	20 $\frac{3}{4}$	16 $\frac{1}{2}$	8.6	6.9
Fourth	23 $\frac{3}{8}$	19	9.2	7.5

FORM 10-K:

Shareholders may obtain a copy, exclusive of exhibits, of the Form 10-K Annual Report for the year ended December 31, 1983, as filed with the Securities and Exchange Commission, by writing to the Investor Relations Department at the Corporate Headquarters address.

AUDITORS:

Touche Ross & Co.
2001 Bryan Tower, Suite 2400
Dallas, TX 75201

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Sanofi-Sintelabo Corporation

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